C. Project Funding

C.1. Overview

The Financial Advisory Team was retained in January 2007 with the objective of developing a financing strategy and model for the full implementation of the high-speed train system. The first task in the initial scope of work included the identification of viable funding sources including State, federal and private funds, as well as system revenues consisting of both farebox and other sources. After the identification of funding sources, the Financial Advisory team would evaluate the schedule of system needs and develop potential financing strategies, to be followed by financial modeling and a robust financial plan summarizing the results of these analyses.

In May 2007, the Financial Advisory Team delivered the "Preliminary Funding Strategy and Finance Plan: Bay Area to Anaheim Segments – Report"[5]. This report summarized the first step of the Team's work and focused on the various funding sources and financing options that the team had identified. This report was based on capital and operating cost estimates and ridership and revenue forecasts that were available at the time.

Since that time, the Financial Advisory Team has focused on developing more detailed assumptions related to the various funding sources and financing options identified in the May report. Key focuses have been the refinement of assumptions related the timing and magnitude of both private sector investment and federal funding. In addition, the Team has been working closely with the Authority's staff and its consultants to understand and incorporate updated system information as it becomes available. Following the refinement of these assumptions and system data, the Financial Advisory Team anticipates the delivery of a financial plan that would support the implementation of the high-speed train system.

[5] See Exhibit C.2.

C.2. Preliminary Funding Strategy and Finance Plan: Bay Area to Anaheim Segments (May 2007)

California High-Speed Rail Authority

Preliminary Funding Strategy and Finance Plan: Bay Area to Anaheim Segments - Report

Infrastructure Management Group/Lehman Brothers Team

In Partnership with:
Sperry Capital
Bauer & Associates
Jack Faucett Associates
CDS Consulting
Dutch Ventures LTD

May 23, 2007

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Executive Summary

The funding of a high-speed train (HST) system in California from the Bay Area to Anaheim (the Project) will likely comprise private and public sources; however, support from local, state and federal sources will be particularly important in early development.

- Private participation could be expected in the range of $4.5 to 7 B through several funding mechanisms.
  - Key private funding mechanisms include: project debt, vendor financing, system operations and private ownership.
  - The extent and cost of private funding will reflect the risks inherent in the Project.
  - Vendor financing, in addition to, or in conjunction with, segment operations seems the most advantageous public-private partnership (P3) vehicle at this early stage.
- Public support, both financial and political, is needed to create an opportunity for the Authority to leverage private participation.
  - Private participants have concerns related to environmental and construction risks, and will wait to invest until there is additional certainty surrounding Project implementation.
  - Environmental certification can be costly and subject to unforeseeable delays. Public funding is essential to completing this project component due to these issues.
  - Right-Of-Way (ROW) and other property acquisition may need to be facilitated through the use of eminent domain authority unavailable to private partners.

Executive Summary (continued)

The Project's funding will likely comprise private and public sources; however, support from local, state and federal sources will be particularly important in early development.

- The State can issue at least $9.95 B in GO debt currently, as scheduled on the November 2008 ballot, without exceeding the Administration's current debt capacity guidelines.
  - The State also has additional GO capacity to issue up to $41 B ($28 B in 2006 $) without exceeding a 7 percent ratio of debt service to General Fund revenue.
  - The State could also support the Project through the issuance of sales tax bonds, instead of traditional GO bonds.
    - This could lower the cost of funds due to more highly rated sales tax bonds and their attractiveness to investors who are approaching portfolio limits on GO debt.
    - A sales tax could be "dovetailed" with the end of the sales tax dedicated to the State's ERBs, resulting in no net sales tax increase.

Executive Summary (continued)

The Project's funding will likely comprise private and public sources; however, support from local, state and federal sources will be particularly important in early development.

- Federal funding is critical to the Project's success and should be a key focus of the Authority beginning now throughout Project development.
  - The targeted federal funding of $10 - $12 B would come, in part, from existing funding sources, but would require the creation of new programs designed with HSR in mind.
  - In addition, the commitment of federal funds and specific changes to certain federal fund restrictions are key signals that would encourage private participation.
  - Currently, California's congressional delegation is uniquely well-positioned on appropriations and transportation committees to assist in these Federal legislative efforts.
- Local partnerships will play a key role in generating public support as well as providing a targeted $2 B in funding for system development.
  - These funds are expected to be raised through a variety of mechanisms, including local P3 initiatives, Benefit Assessment Districts, and local sales taxes.
  - The California High Speed Rail Authority (the Authority) should work closely with local governments, private partners and planning organizations during early project development to better secure this source.

Executive Summary (continued)

The Project is estimated to cost $30 B in construction costs and a further $500 MM in financing fees over a 12-year period.*

Funding Sources	Amount (in $B)
Public-Private Partnerships (P3)	$5 to $7.5
State Support	$9 to $12.5
Federal Support	$10 to $12.5
Local Partnerships	$2 to $4
Additional Funding Sources	
Environmental "Benefit Capture"	$0.5 to ?
Additional Local Corridor Cost Sharing	$1 to $3
Total Funding	**$27.5 to $39.5**

*All figures are in 2006 dollars.

Public-Private Partnerships

Public-Private Partnerships - Overview

Based on initial conversations with private companies, P3s could serve as a financing source a portion of the Project, absorbing certain risks.

- Construction firms, vendors, operators and private equity firms are all interested in the project, and could, on their own or in partnership with one another, participate in the development of the Project.
  - Each participant is willing to undertake specific levels and types of risks.
  - The involvement of each of these players could be beneficial to the Authority at different times in the development of the Project.

Participant	Environmental Risk	Construction Risk	Ridership Risk	Operational Risk
Construction Firm	No	Yes	Limited	Some
Equip. Vendor	No	Some (Equip.)	Some	Limited
Operator	No	Some	Some	All
Equity Investor	No	Limited	Some	Some

Chart assumes that each participant is working with the Authority in a partnership which involves a sharing of risk and return.

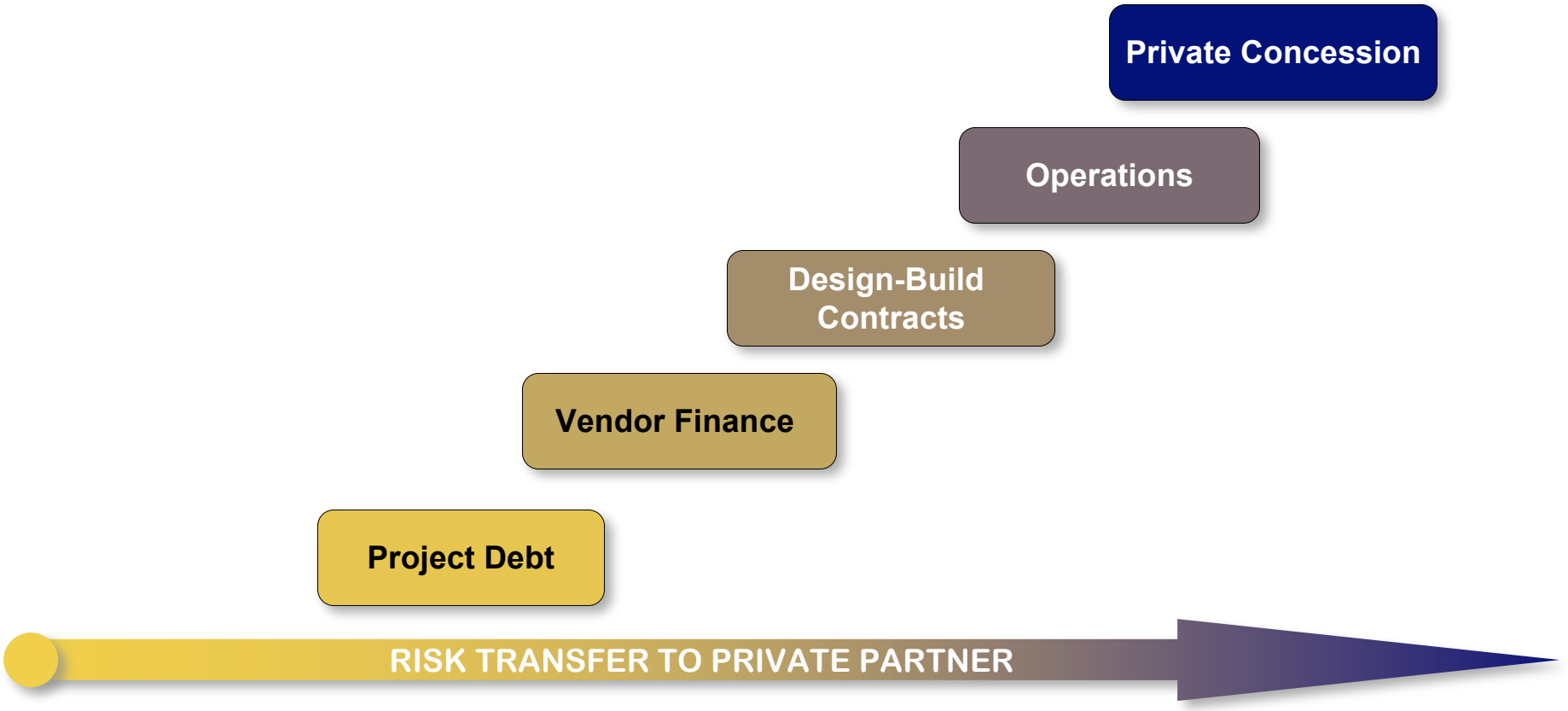
Public-Private Partnerships - Overview (cont'd)

Based on initial conversations with private companies, P3s could serve as a financing source a portion of the Project, absorbing certain risks.

- System surpluses have been examined to estimate the potential investment a vendor, operator or equity investor may be willing to make.
  - The value of the operation of this system to a private sector participant is based on the surplus system revenues.
  - The availability of these revenues to support equipment lease payments was also evaluated assuming reduced up-front capital costs for equipment.
- It is assumed that the ultimate P3 mechanism employed by the Authority will involve a number of different private participants sharing risks and returns.

Public-Private Partnerships - Overview (cont'd)

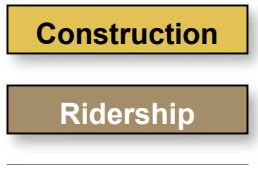
Based on initial conversations with private companies, P3s could serve as a financing source a portion of the Project, absorbing certain risks.



Public Private Partnerships - Project Debt

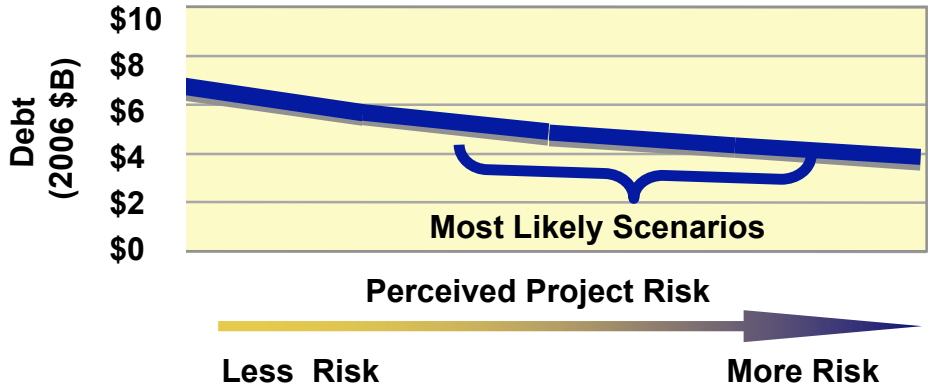
The Project's risks affect its value to private partners.

- As a greenfield project and the first of its kind in the United States, the Project's construction and operation risks are perceived to be high. Key concerns are:
  - Capital cost overruns and construction delays
  - The Project's ability to meet ridership and revenue forecasts.
- The financial implications of these risks are:
  - Likely high debt service coverage ratio requirements (ratio of net available cash to debt service), of approximately 1.75 to 2.0 times annual debt service
  - A high cost of capital:
    - A coupon rate of approximately 7.25 percent on revenue bonds, based on a 150 basis points premium over the assumed rate for State GO bonds
    - Financing fees, such as up to 6 percent on a Railroad Rehabilitation & Improvement Financing (RRIF) loan, were that mode of financing to be utilized
  - These assumptions reflect the perceived risk of the Project; these costs could be lower with state or federal guarantees, by lowering interest rates, debt service coverage requirements and credit risk premiums.



Public Private Partnerships - Project Debt

Given expected market terms, the Authority would likely be able to issue $4.0 B to $5.5 B of fare-based debt for the Bay Area to Anaheim segment.

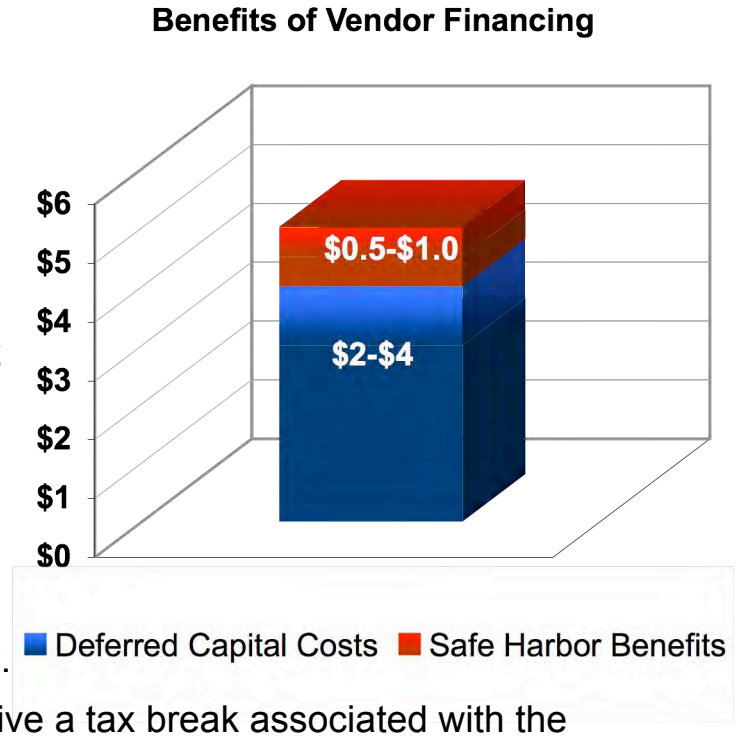


- The range above is based on low-end ridership estimates and does not include non-farebox revenues such as advertising or concessions.
- This analysis assumes a blend of likely financing instruments, including revenue bonds/private activity bonds, RRIF and Transportation Infrastructure Finance and Innovation Act (TIFIA) loans.
- Loans or bonds are assumed issued during critical construction phases (2010-2020).
- An additional $0.5 B to $1.5 B equity investment could be supported on top of this debt, assuming required rates of return between 13 and 20 percent.

Public-Private Partnerships - Vendor Financing

Vendor financing could reduce the Project's up-front capital costs by $2 B to $4 B, resulting, however, in annual lease payments.

- This would shift up-front capital equipment and infrastructure costs to annual lease payments.
  - This shift would reduce overall capital expenditure, but would lower the annual operating surplus.
  - As a result, the HST system would have less revenue available to support bond issues or share with private partners.
  - Vendor financing could also be used in the context of a larger segment operations contract.
- "Safe Harbor" leasing could generate tax incentives for leased assets to increase the value to the Authority beyond $2 B to $4 B.
  - The IRS currently prohibits this, but exemptions could be sought for new infrastructure investments.
  - An exemption would allow the asset owner to receive a tax break associated with the depreciation cost of that asset.
  - This Authority could capture a portion of the resulting $0.5 B to $1 B in estimated tax savings.



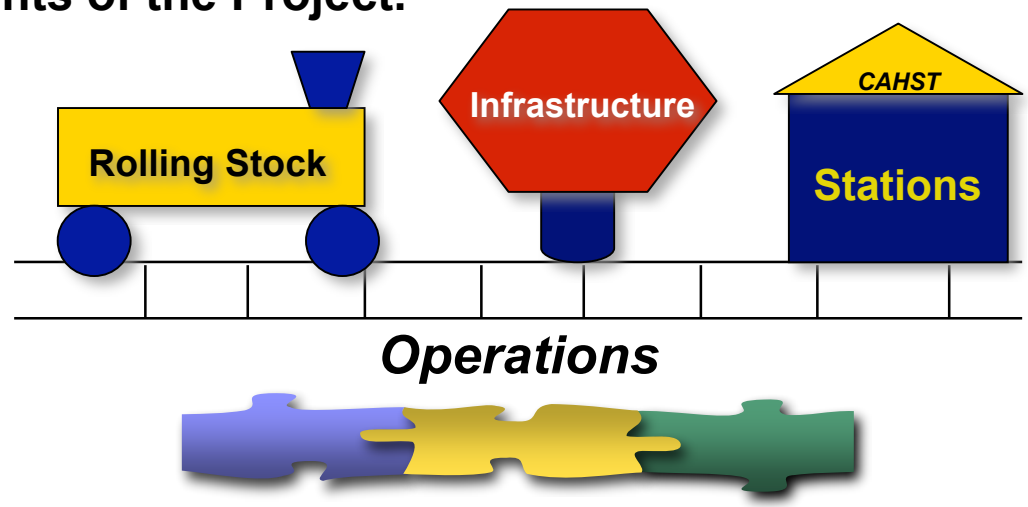
Public-Private Partnerships - Design/Build

The private sector can reduce schedule and completion risks of major projects through design/build contracts and similar tools.

- Transferring design and construction risk to private construction firms in conjunction with guaranteed maximum price lump sum contracts, where feasible, can transfer major risks to private parties.
- Adequately addressing construction risk is a major requirement for obtaining equity investment at the start of the project.
  - This approach has been recently used for 91 Express lanes, the Transportation Corridor Agencies (TCA) projects, SR-22, SR-125 and other California projects.
- Independent of private investment, design/build can be used in an "availability payment" contract for the entire project or segments:
  - Authority makes annual availability payments to builder once project is complete
  - Bonus paid if traffic is high or system is available for use more than anticipated
  - Approach recently used for Miami tunnel and U.K. "PFI" projects.

Public-Private Partnerships - Operations

Private operators are likely to be interested in operating/maintaining various elements of the Project.



- These arrangements may involve a consortium or individual operators taking responsibility for project elements (i.e. infrastructure, O&M, rolling stock or stations).
- This could occur in combination with vendor financing opportunities.
- In addition to bringing in private operations methods, operators may consider equity investments, receiving fare and non-fare revenues and availability payments as compensation.

Public-Private Partnerships - Private Ownership

Equity investment in the Project depends considerably on how project risks, particularly ridership and construction, are addressed.

- Equity investors, in particular private equity funds, have emerged as new investors in infrastructure PPPs, especially in toll roads, such as in the existing ("brownfield") Chicago Skyway, Indiana Tollway, and new ("greenfield") Texas toll roads.
  - Investors are attracted to the steady cashflows of tolls and fares that meet the long-term funding needs of backers, such as pension funds and insurance companies.
  - Some funds are restricted from greenfield investments due to experience with delay, cost-overrrun, and political meddling in past projects, including California's SR-125.
  - Investors are sensitive about ridership risk, especially for rail, due to poor past transit experience.

Key Project Risks

- Environmental
- Construction
- Ridership
- Operations
- Regulatory

Public-Private Partnerships - Private Ownership

Equity investors, including private equity funds and operators, would require certain transaction terms to participate in the Project.

- **Transaction size:** Funds are attracted to the size of the project; however, any one fund is not likely to provide financing of more than $3 B to $5 B.
- **Segmentation is attractive:** The 12-year construction period poses a significant challenge, making a "segment by segment" approach more appropriate.
- **Project finance goals:** As equity investors may require returns of 13-20 percent or higher, strategy is to maximize project finance debt.
  - Start-up project senior debt requires debt coverage ratios of at least 1.75.
  - Long-term concessions could allow for periodic "roll-over" of debt.
  - Project should maximize subordinate debt vehicles that accept lower coverage ratios, as well as "patient" flexible lenders including TIFIA.
- **Minimum Subsidy Bids:** Some investors would consider competing on the lowest required subsidy for those segments that cannot be financed on their own.
  - There is some concern that the application of this method to a project of this size and complexity may invite undercapitalized bidders; therefore, careful evaluation is needed.
- **Real Estate:** Pure real estate investment, such as for station development, would likely be financed through "sister" real estate funds.

Public-Private Partnerships – Need for Demonstrated Public Commitment

While private partners can potentially support a portion of the Project, this support will not materialize without a strong public commitment.

- History suggests that political risk associated high-speed rail projects in the United States is high.
- Private sector participants are actively following the progress of this project and will interpret the State's actions, with respect to next year's budget as well as the proposed bond measure, as an indication of the level of risk present for CA HSR.
- Strong public support at this stage is necessary to enable meaningful discussions with private participants that will help to refine the estimates presented here, as well as lay the groundwork for an eventual partnership with the private sector.
- Proposed near-term expenditures for preliminary design and crucial environmental work necessarily will be the responsibility of the public sector under any realistic plan of finance. Delays or scale-backs would raise future costs and raise perceived political risk of the project in the eyes of the private sector.
- Perceived lack of commitment at this stage also may have negative implications for the State's future negotiating position with potential private partners.

State Support

State Support - Background

The State has made considerable investments to develop passenger rail service; the HST would greatly enhance these investments.

- Various services currently exist for California rail travel:
  - Amtrak Service: long distance, inter-state service, including service on the Coast Starlight, CA Zephyr, Southwest Chief and Sunset Limited
  - State supported/Amtrak operated: intra-state services where the state pays all or a majority of net cost (Pacific Surfliner, San Joaquin, Capitol Corridor)
  - Commuter rail service: Caltrain, Metrolink, Coaster, Altamont Commuter Express (ACE), which are local and regional.
- Since 1976, the State has invested over $1.6 B in capital funding for equipment and infrastructure in a system cost more than $5 B in total expenditures.
- Current passenger rail service operates at a deficit and has cost the State over $700 MM in operating funding, and is a continued obligation of the State.
- Additional state passenger rail funding is currently being sought through the issuance of $9.95 B in state general obligation debt for the HST system.

State Support - Background

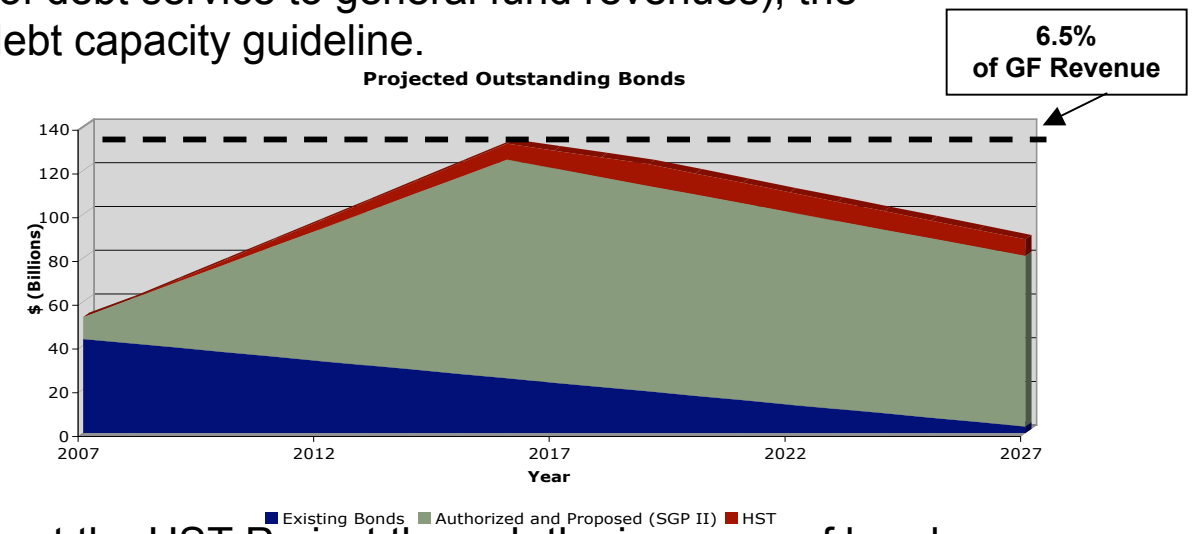
Development of a HST system is expected to provide a high return on investment for state dollars in economic and environmental benefits.

- Statewide and regional economic impact models show enhanced population growth.
  - Compared to the no-project alternative, the population growth is roughly two percent (700,000 people) higher for the HST alternative.
  - This population difference between alternatives represents the increased accessibility provided by the transportation investments.
- Research shows the generation of about 300,000 job-years of employment from HST construction.
- Statewide employment is projected to increase by two percent for the HST alternative, a statewide increase of about 450,000 jobs.
  - If only half of this predicted job gain were realized, the annual increase in income taxes collected is estimated at half a billion dollars annually.
- The HST-system is expected to reduce petroleum consumption and carbon emissions based on the use of the HST versus other modes of transportation.
  - Emissions reductions are forecasted at between 8 and 12 billion pounds annually.

State Support - General Obligation Bonds

The $9.95 B in GO Bonds already scheduled for the 2008 ballot are affordable under the Administration's current debt capacity guideline.

- The Governor projects $100 B in bonds to be issued through FY 2015-16; $9 B in GO Bonds HST bonds could also be issued without exceeding a debt ratio of 6.5 percent (ratio of debt service to general fund revenues), the Administration's current debt capacity guideline.
- The State has an estimated GO bond capacity of **$41 B ($28 B** in 2006 dollars) beyond the Governor's planned $100 B – without exceeding a debt ratio of 7.0 percent.



- The State also could support the HST Project through the issuance of bonds backed by a dedicated state-wide sales tax, instead of traditional GO bonds. This approach could lower interest rates and appeal to investors desiring "diverse credits." A sales tax for HST could be "dovetailed" with the end of the current state-wide sales tax for the State's Economic Recovery Bonds (ERBs).

State Support - General Obligation Bonds

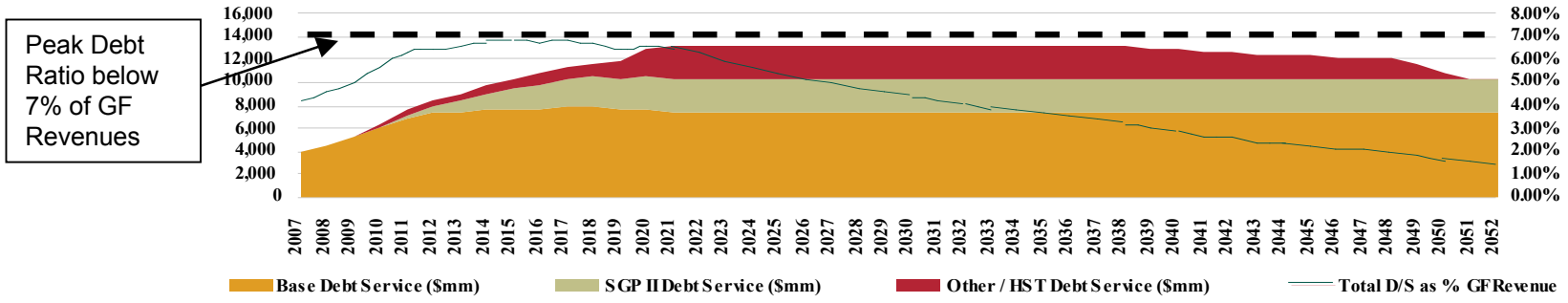
California had nearly $43 B in bonds outstanding as of 2/1/07. If the Governor's latest proposals are enacted, a further $100 B could be issued in less than 10 years.

- California currently has outstanding over **$37 B** in General Obligation Bonds (GO Bonds) and $7.6 B in Lease Revenue Bonds (LRBs), with approval to issue nearly **$71 B** more at some time in the future (all as of February 1, 2007).
- Current state issuance plans for previously authorized bonds include the sale of over **$67.5 B** in new GO bonds and LRBs by the end of fiscal year 2015-16.
- The Governor has proposed authorizing an additional **$41 B** in new bonds under the "Strategic Growth Plan II" (SGP II), of which the Administration estimates over **$32.5 B** in GO bonds and LRBs would be issued by the end of fiscal year 2015-16.
- Thus, the Governor projects approximately **$100 B** in total bonds to be issued through fiscal year 2015-16 - without exceeding a ratio of debt service to general fund revenues of 6.50 percent, the Administration's current debt capacity guideline.

State Support - General Obligation Bonds

The $9.95 B in GO bonds already scheduled for the 2008 ballot could be issued between 2009 and 2019 without increasing the State's debt ratio above 6.50 percent.

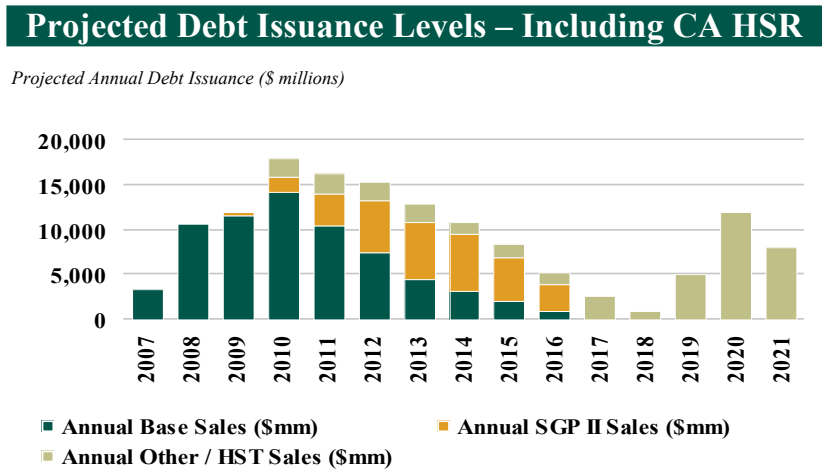
- Issuing these bonds in addition to the Governor's other planned issues through 2016 would yield an estimated cumulative state debt service ratio at 6.47 percent of general fund revenues (in FY 2014-15), if properly structured.
- In fact, California's estimated GO capacity over the next 14 years could be sufficient to support approximately $41 B (nearly $28 B in 2006 dollars) in additional bonds beyond the Governor's planned $100 B in sales through FY 2015-16 (excludes newly proposed lease revenue bonds for corrections facilities).
- This additional GO capacity could be made available for new projects (such as the HST) - without exceeding a 7 percent debt service ratio.

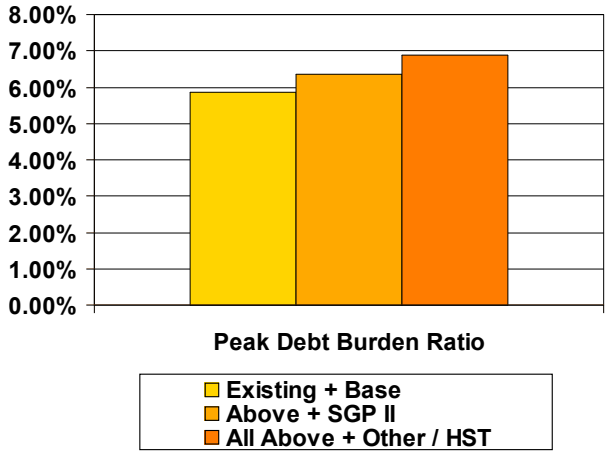


State Support - General Obligation Bonds

HST GO Bonds would be issued in coordination with previously authorized and planned general fund debt.

- Under the Governor's assumed schedule for issuance of approximately **$67.5 B** of previously approved bonds by 2016, the aggregate ratio of debt service to general fund revenues is estimated to peak at 5.85 percent.
- With the addition of another **$32.5 B** in bonds by 2016 under the SGP II, the ratio of debt service to general fund revenues is estimated to peak at 6.35 percent.
- The addition of another **$41 B** would bring the ratio of debt service to general fund revenues to a peak of 6.89 percent in FY 2015-16.





State Support - Sales Tax Bonds

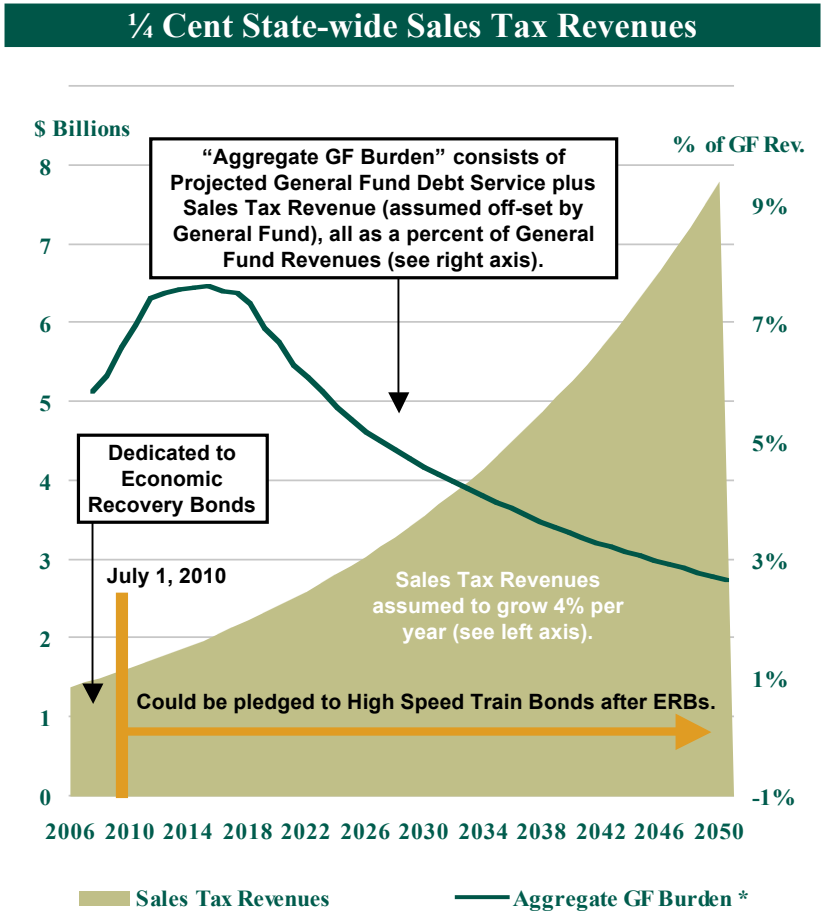
Bonds backed by a state-wide sales tax could be an attractive alternative to traditional GO bonds – and generate significant HST funding.

- Ratings on the State's traditional GO Bonds currently are A1/A+/A+. Ratings on the State's Economic Recovery Bonds – with a double barreled security backed by sales tax and a GO pledge – are now Aa3/AA+/AA- following upgrades from Standard & Poor's and Fitch Ratings.
- Under current market conditions, we would expect about 15 basis points lower cost for the sales tax-backed bonds – worth $150 MM on $10 B in bonds.
- This "spread" relationship could change depending on market conditions, the State's fiscal situation, the volume of bonds being issued, and other factors.
- The biggest advantage may be from "product diversification" that allows investors to purchase bonds with a credit structure that is distinguishable from the traditional GO bonds.
- A quarter-cent state-wide sales tax could generate upwards of $40 B in total funding by 2020 (assuming multiple 30-year bonds and conservative 2% annual increase in debt service and 4% annual increase in available sales tax revenues). Tax and bond terms could be tailored to "match" State's desired HST investment.

State Support - Sales Tax Bonds

A sales tax for the HST could fit within existing tax rates, if "dovetailed" with the end of the sales tax dedicated to the State's ERBs.

- The Administration projects full redemption of the remaining ERBs by July 1, 2010.
- This offers an opportunity for a new sales tax dedicated to HST to "dovetail" with the sunset the ERB sales tax, for no net rate increase.
- The existing sales tax for ERBs was created by the State after elimination of a ¼ cent local sales tax, which the general fund now "backfills" to local agencies.
- If a sales tax for HST were structured the same way, this backfill increases the aggregate general fund burden, which also includes GO and lease debt service.
- Voter approval would be required to issue bonds, even if backed by a sales tax.



Federal Support

Federal Support

Since federal financial and regulatory support is crucial to Project's success, the Authority should target $10 B to $12 B in federal funding, taking advantage of California's well-positioned congressional delegation.

- California currently has Senate and House representation on key committees at a time when transportation legislation is up for reauthorization. In addition environmental issues and energy policy are high on lawmakers' agendas.
- Support from existing federal legislation includes the following:
  - Federal funding typically supports 50 to 80 percent of many transit projects; however, the scale of the HST project is beyond that of the typical project.
  - Existing federal funding sources could, over time, provide between **$3 B and $4 B** through a combination of New Starts, other grant programs and financing assistance.
- New federal initiatives include the following:
  - New funding sources specifically for high-speed rail, as well as the expansion of existing transit programs, must be pursued rigorously to provide support for the Project.
  - Further modification of existing federal funding terms and restrictions would also make the Project more attractive to private investors.
  - Transportation system investments, as opposed to individual highway, aviation or transit investments, are needed to encourage efficient allocation of transportation dollars.

Federal Support - California Congressional Advantage

California currently has Senate and House representation on key committees that could provide crucial support for the Project.

- Senator Boxer sits on the following committees:
  - Environment and Public Works Committee Chair - Oversees the reauthorization of SAFETEA-LU*
  - Commerce, Science and Transportation Committee Member.
- Senator Feinstein sits on the following committees:
  - Appropriations Committee Member
  - Transportation, Housing and Urban Development and Related Agencies Subcommittee
- Congresswoman Pelosi is Speaker of the House.
- House Transportation and Infrastructure Committee has seven California members.
  - Highways and Transit Subcommittee has five members.
  - Rail Subcommittee has two members.
  - These members are geographically distributed across California: San Diego, Sacramento, Los Angeles and the Bay Area
- In addition, members from other states with high-speed rail corridors (Florida, Texas, Northeast Corridor, etc.) could be important allies in efforts to obtain HSR funding.

* Safe, Accountable, Flexible, Efficient Transportation Equity Act : A Legacy for Users

Federal Support - Grant Funding

Current available federal sources are limited and their use would incur restrictions associated with the "Buy America" program.

- Federal Transit Administration (FTA) Section 5309 Funds (New Starts) are available for the construction of new fixed guideway systems, providing a total of about $1.5 B per year on a competitive basis for all new projects in the U.S.
  - The Project could be eligible for these funds where it provides or interfaces with commuter rail services such as Metrolink, Caltrain, Coaster, and the Altamont Commuter Express (ACE).
  - Projects become candidates for funding by completing appropriate steps in the major capital planning process.
  - Funding is currently limited to a maximum of 60 percent of eligible project costs.
- The Federal Highway Administration (FHWA) and Federal Rail Administration (FRA) currently provide grade separation monies of about $220 MM per year.
  - Additional funds are available through local MPOs, but these funds would also be used for other CA transit projects.
  - FRA has some safety crossing funds which can also be used for grade separation project elements; however, these amounts would not adequately support a project on the scale of the HST system.

Federal Support - Grant Funding

To generate more more flexible funding for the HST, targeted at $5 B to $6 B, key changes to existing programs are needed.

- Reauthorization efforts for SAFETEA-LU, the transportation legislation that sets FTA, FHWA and FRA program funding and earmarks, are already underway to replace the current legislation that is set to expire September 30, 2008.
- Targeted program changes would provide $5 B to $6 B in funding over the development of the Project:
  - Increase in the funding available to the New Starts program and a broadening of the program to specifically include high-speed rail pilot program
  - Additional funding for the FRA and FHWA programs which fund grade separations and the expansion of the ability to "flex" these funds, or shift them across transportation modes.
- Additional changes would encourage private participation and potentially lower the Project's perceived risk:
  - Allow the purchase of property outside the ROW and station footprint with federal funds
  - Exempt high-speed rail development from "Buy America" restrictions

Federal Support - Grant Funding

New funding sources that explicitly support HST are needed, providing additional funding targeted at $4 B to $5.5.

- Recently introduced legislation (H.R. 1300) indicates that energy dependency is a current concern and high-speed rail is seen as a part of the solution. Legislation directly funding high-speed rail due to its environmental- and energy-friendliness should be strongly pursued as a pilot program; targeted at $4 B.
- Transportation system investments, as opposed to individual aviation, highway, and transit investments, should be encouraged through the flexible use of transportation dollars.
  - Amtrak reauthorization should be written so that any high-speed rail project can apply for funding under the legislation for eligible improvements such as electrification, grade separations, safety investments and signals; targeted at **$1 B.**
  - The reauthorization of current aviation legislation which expires September 30, 2007 provides an opportunity to expand the use of Federal aviation funds and Passenger Facility Charges to fully fund transportation ties to the airport; targeted at **$500 MM**.

Federal Support - Financing Support

Current innovative finance programs could be used to support the HST system, especially subordinate lien and long-dated characteristics.

- The Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA") established a federal credit program for eligible transportation projects of a national or regional significance.
  - Roughly $2 B in annual credit support is available through secured direct loans, loan guarantees, and lines of credit.
  - Interest rates reflect the government's borrowing costs.
  - Government's terms reflect its willingness to be a "patient investor" resulting in:
    - lengthy amortization period (up to 35 years)
    - flexible payment deferrals (to to 10 years)
    - subordinate status attractive to other investors.
  - Principal amounts of credit assistance can be up to 33 percent of eligible project costs.

Federal Support - Financing Support (cont'd)

Current innovative finance programs could be used to support the HST system, especially subordinate lien and long-dated characteristics.

- The RRIF program is a revolving loan and loan guarantee program administered by FRA that is legislatively enabled to issue up to $35 B.
  - Interest rates are attractive but issuers must pay a one-time up-front fee, of up to 600 basis points, based on the risk of the project.
  - RRIF can fund up to 100% of project costs and allows for a five-year grace period.
  - RRIF's senior debt status could be a concern for private partners that prefer this type of innovative finance credits to be subordinate to other project debt.
- Private Activity Bonds (PABs) allow the private sector to borrow at tax-exempt rates with no federal regulatory requirements and are authorized to be issued in amounts up to $15 B for transportation projects.
  - PABs are highly attractive to private investors in conjunction with a P3 program that includes equity investment, design-build, and operations involvement and could be used in conjunction with TIFIA/RRIF.
  - PABs currently have restrictions governing the percentage of proceeds that can be used for land acquisition, and the improvement that must be done on properties purchased with PAB dollars.

Federal Support - Financing Support

The following changes in federal programs could help provide additional flexibility and reduce financing costs by a target of $500 MM.

- TIFIA:
  - An increase in the loan repayment term from 25 to 50 years
  - The removal of interest accrual during construction.
- RRIF:
  - The removal and/or reduction of current upfront credit risk premium payments by the loan applicant.
  - An increase in the loan repayment term from 25 to 50 years
  - A reduction in interest rates to reflect those of tax-exempt issues
  - An increase in the principal and interest grace period from 5 to 10 years
  - The removal of interest accrual during construction.
- PABs:
  - An increase in the total authorized value of PABs for transportation purposes.

Local Partnerships

Local Partnerships

Private and public mechanisms could generate the $2 B to $ 4 B of targeted local funding and would demonstrate important local support.

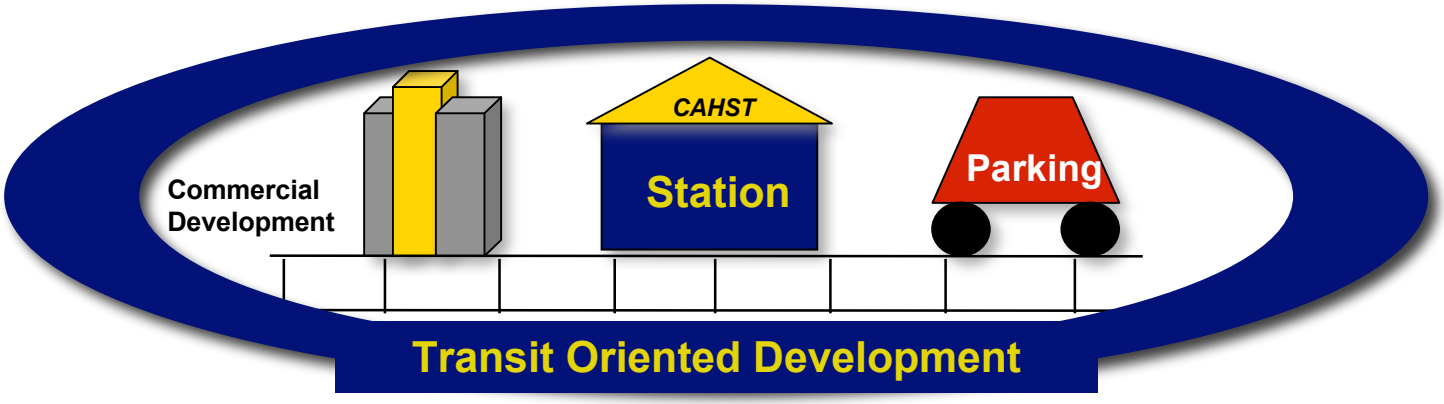
- **Transit Oriented Development**
  - Parking, other mixed use development
  - Local P3 initiatives
- **Benefit Assessment Districts**
  - Santa Clara Valley Transportation Authority
  - LA's Metropolitan Transportation Authority
- **Station Concessions**
  - Retail, advertising etc.
  - Local P3 initiatives
- **Local Transportation Sales Taxes**
  - Orange County Transportation Authority
- **Air Rights and ROW Leases**
  - Transbay Joint-Powers Authority

Local Strategic Partnerships

- CA HSR Authority
- Local Government and Transportation Authorities
- Private Developers

Local Partnerships - Joint Development

Through joint-development, private firms can assist in capturing and sharing real estate value with the Project.



- Station and parking development should be straight forward in obtaining private partners that are willing to invest immediately.
- For commercial development such as office space built atop the station or on right-of-way, the level of interest will depend on the local real estate market.
- Other transit-oriented development (TOD) will require a longer development period and not likely serve as an immediate project financing source.
- Joint development opportunities need to be assessed in the context of all value capture opportunities.

Local Partnerships - Land Value Capture

Through land value capture mechanisms, the Authority and local communities may be able to access Project's benefits created at surrounding stations and in nearby communities.

- Land value capture refers to methods of capturing the likely increases in property values that may be driven by the development and expansion of train stations in the high-speed rail corridor.
- Typically, land value capture is achieved through targeting rezoning or development levies applied directly to areas which increase in value as a result of the project. Land value capture benefits include increases in the value of "train station" or "city center" properties and businesses.
- In the 1980s, LACMTA was authorized to create two benefit assessment districts (BADs) which generated additional property taxes to help finance Metro's red line.
  - These taxes resulted in $130 million for the project, approximately 10 percent of the cost.
- More recently in 2003, Santa Clara VTA was granted similar authority to levy benefit assessments on certain property in close proximity to proposed new rail stations.

Local Partnerships – Urban Station Development Case Study

Anaheim's Regional Transportation Intermodal Center (ARTIC), a regional strategic partnership, will likely be funded with public and private monies, including sales taxes, grants and BADs.

- The City of Anaheim and the Orange County Transportation Authority (OCTA) are jointly developing the ARTIC at a total cost of $ 250 MM.
  - OCTA purchased 13.5 acre site for $32 MM using Measure M sales tax revenues; the City's adjacent 2.5 acres are valued at $6 MM.
- Transportation components are envisioned to include Metrolink, Amtrak, HST, California/Nevada Super Speed Train, OCTA bus service, a people mover to area attractions including Disneyland, and shuttle/taxi services.
- ARTIC is expected to help create a market-driven mixed-use environment linking sports and entertainment venues with business, retail and residential development (the "Platinum Triangle"), a unique Orange County "downtown."
  - ARTIC developers are exploring a viable combination of public and private revenue sources to pay for and operate the facility.
  - Future costs will be financed with additional Measure M sales tax revenues, federal grants, community facilities district bonds, and tax increment financing.
- This example demonstrates potential economic development benefits and value capture tools that HST could leverage.

Local Partnerships – Urban Station Development Case Study

San Francisco's Transbay Joint-Powers Authority (JPA) is an ambitious plan to build, operate and maintain the new $2.6 B Transbay Transit Center (TTC) to be funded with TIF, concessions and user fees.

- Initial Transbay JPA funding sources include:
  - Sales tax revenues from San Francisco and San Mateo County Transportation Authorities
  - Transferable development rights
  - $150 MM from AB 1171 for seismic retrofit of Bay Bridges
  - Regional Transportation Improvement Program (RTIP) funds are committed by MTC
  - Federal Section 1601, High Priority Bus, Projects of National Significance grants
  - TIFIA loans.
- Sources for debt service include:
  - Tax increment financing within redevelopment area
  - Concession and lease revenue
  - Proposed Passenger Facility Charges (PFCs) from Alameda-Contra Costa Transit District, Caltrain and the HST:
    - TTC financial plan assumes $2.25 (2006 dollars) for each HST passenger and assumes the HST's PFC would escalate at 3% per year.

Local Partnerships – Urban Station Development Case Study

The Santa Clara Valley Transportation Authority (VTA) makes use of benefit assessment district and TOD property acquisition legislation to fund San Jose Diridon station.

- San Jose Diridon Station is a "hyper" strategic partnership, owned by Peninsula Corridor JPA made up of San Francisco, SAMTRANS and VTA.
  - Serves Caltrain, two local commuter services, Amtrak and UPRR freight trains.
  - It is part of the capital corridor service operated by the Capital Corridors JPA in partnership with six local transit agencies.
- VTA developed Vasona Light Rail line to Diridon Station.
  - In 2005, VTA adopted joint development program designed to secure most appropriate public and private sector development of VTA-owned properties.
  - VTA is well positioned for joint development projects:
    - AB 670 (1999) allows VTA, SAMTRANS and Bay Area Rapid Transit (BART) to acquire land entirely for the purpose of TOD.
    - AB 935 (2003) authorizes VTA to establish benefit assessment districts relative to its rail lines and to issue revenue bonds; it permits VTA to levy "benefit assessments" on certain property within a half mile of station, with proceeds to be used for the station.
    - AB 1937 (2002) allows transit operator to enter into joint development agreements.

Local Partnerships – Central Valley Station Development Case Study

The Fresno Station could serve as a catalyst for local redevelopment and allow the Project to capture benefits for financing.

- There are two rail corridors currently serving the Fresno region:
  - Burlington Northern Santa Fe (BNSF) rail corridor serves 30 daily freight trains and 12 daily Amtrak trains.
  - Union Pacific Railroad (UPRR) rail corridor serves 20 daily freight trains.
- The HST station is planned for UPRR corridor, which borders Fresno's downtown.
  - Amtrak service may be relocated to UPRR corridor (currently on BNSF track).
  - Large quantities of land are available, including 300 feet corridor in downtown from Hwy 41 on south and up to Divisidero Avenue.
  - While historic Southern Pacific station, located on the UPRR line, has been converted to office building, a new HST station could be located nearby on surplus city property.
  - Much of this area is in a redevelopment district.
- Measure C sales tax program was reauthorized for 20 years and could potentially provide funding for HST development in Fresno.
- The Project could also help with the relocation of freight operations and Amtrak service to west side of downtown; this "railroad consolidation plan" has been a long-term objective of city planners.

Local Partnerships –Operations Support

Strategic partnerships with some communities, similar to the existing MOU between OCTA and the Authority, could move beyond station development to supporting segment operations.

- The Authority and OCTA approved a Memorandum of Understanding (MOU) to conduct environmental studies on a high-speed rail segment between Anaheim and downtown Los Angeles.
  - The Orange County segment of the high-speed route would travel at least as far south as Anaheim along existing railroad right-of-way.
  - Pursuant to the MOU, OCTA will provide $7 MM in local funds starting in FY 2007-08 to initiate a project-specific environmental document for the Orange County portion of the rail segment between Los Angeles Union Station and Anaheim.
- OCTA is anxious to expand rail transit in Orange County and throughout the region and may be receptive to strategic P3's for the operation of segments.
  - OCTA has substantial Renewed Measure M funds to invest in transit.

Additional Support

Additional Support - State P3 Legislation

Key California legislative changes could encourage greater participation by the private sector.

- Existing law restricts P3 tools to limited numbers and types of projects and imposes a cumbersome review and approval process.
- The Administration and Legislature have not yet achieved consensus on framework for greater use of P3s in California.
- However, proposed legislation for toll road P3s, SB 61, includes broad language related to the types of partnerships allowed and is currently written to include rail and related facilities.
  - The Authority should encourage the enactment of SB 61 or similar legislation for P3.
  - Once the parameters of potential HST P3 arrangements are identified, further legislation could be contemplated:
    - Amendments could be made to state law in the future to broaden the types of partnerships allowed, as needed.
    - A specific HST P3 bill could be presented if necessary changes are significant.

Additional Support – Local Cost Sharing

Currently the Project costs include all those that are necessary for the HST system, regardless of whether other transportation organizations need similar improvements.

- Specific elements of the HST Project, such as grade separations and corridor electrification, are needed for HST and other transportation organizations.
- The Authority could share the costs of these improvements and lower its overall cost.
- The Authority also could partner with local agencies in seeking incremental federal and P3 funding of mutual benefit.
- Future engineering, engineering and alignment work will uncover necessary detail to identify these potential shared costs; Initial Authority estimates place potential target benefits in range of $1 B to $3 B. No “validation” has yet been performed.

Additional Support - Alternative Environmental Funding Sources

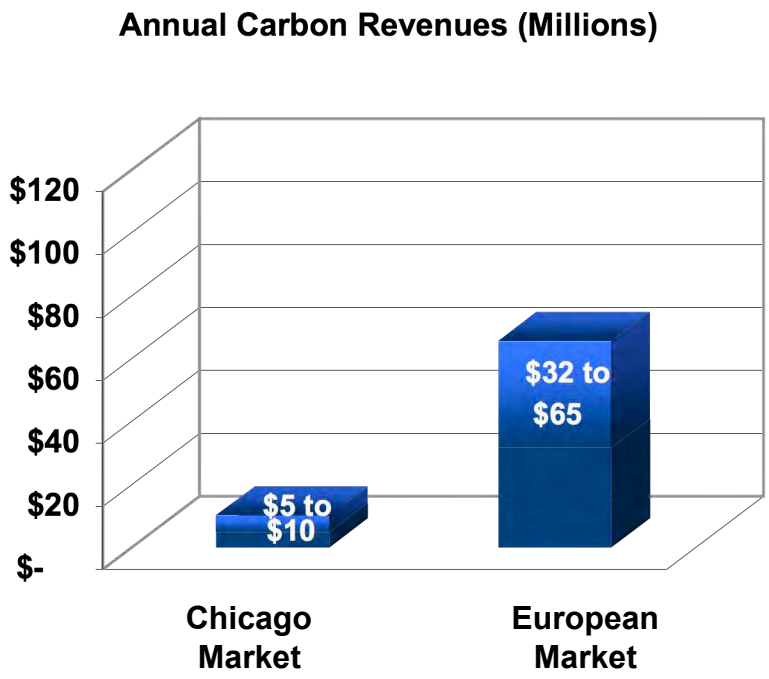
With California's focus on reducing emissions, the Authority should leverage the Project's environmental benefits to create funding sources.

- AB 32 requires the State Air Resources Board to reduce emissions to 1990 levels by 2020.
  - The Board may adopt a "cap and trade" system (market-based declining annual aggregate emission limits) for sources, applicable from 2012 to 2020, by using exchanges, banking, credits and other transactions.
  - The Board may adopt a schedule of fees to be paid by regulated sources of greenhouse gas emissions and deposited in the Air Pollution Control Fund.
  - Investment in new technologies is encouraged.
- The Governor is a supporter of the use of market-based credits.
  - The Governor buys emissions credits to offset his air travel at $10 per ton from the Pacific Forest Trust, which is accredited by the California Climate Action Registry.
  - This has encouraged other elected officials, including Senator Diane Feinstein, and Assembly Speaker Fabian Nuñez, to support the purchase of emissions credits.
- A carbon credit "cap and trade" or direct carbon tax system could be implemented to require investment in clean transportation, like HST, from emissions-heavy transportation, like aviation.

Additional Support - Carbon Credit Program

Although revenues from a carbon credit program will initially be small, they could grow as the restrictions on carbon emissions increase.

- Preliminary estimates indicate that the HST would reduce aviation carbon emissions in California by 3.0 to 6.2 B pounds annually.
- If carbon were priced based on Chicago's fledgling climate exchange, carbon-based revenues generated by the high speed train would range from $5 to $10 MM annually.
- If carbon prices were instead more similar to those in Europe's more established market, revenues would range from $32 to $65 MM each year.
- As the market value for carbon increases, or California makes a policy decision to tax carbon production more heavily, these values could increase considerably.



Finance Plan

Finance Plan - Overview

The Project is estimated to cost $30 B in construction costs and a further $500 MM in financing fees over a 12-year period.*

Funding Sources	Amount (in $B)
Public-Private Partnerships (P3)	$5 to $7.5
State Support	$9 to $12.5
Federal Support	$10 to $12.5
Local Partnerships	$2 to $4
Additional Funding Sources	
Environmental "Benefit Capture"	$0.5 to ?
Additional Local Corridor Cost Sharing	$1 to $3
Total Funding	**$27.5 to $39.5**

*All figures are in 2006 dollars.

Finance Plan - Timing of Funds

The finance plan requires a combination of sources. Private support would occur at different times depending on the P3 type.

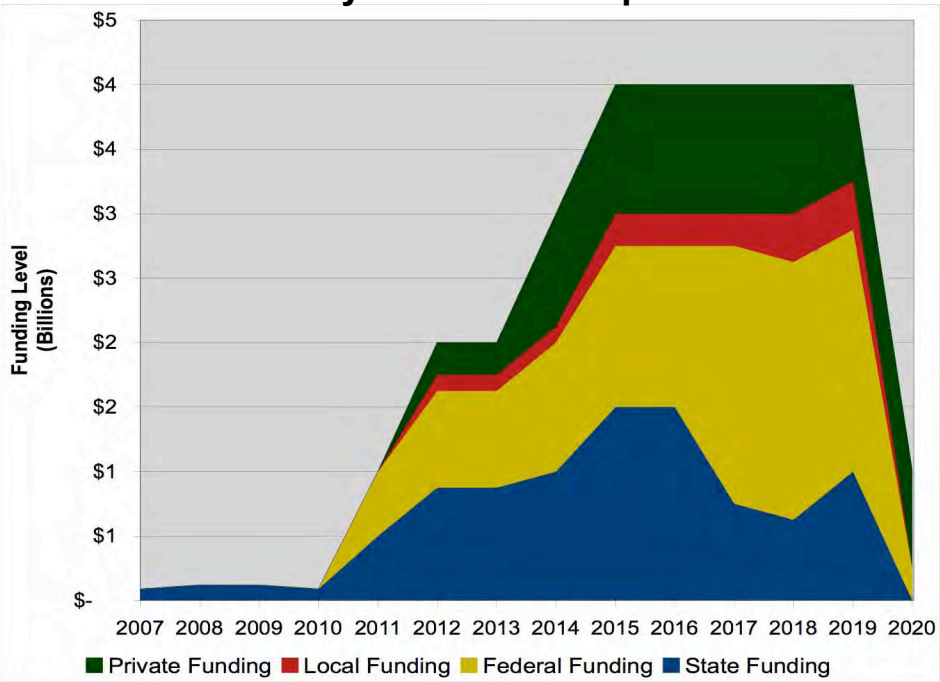
Development Stage	Key Participants		
	State and Federal	Local	Private
Environmental and pre-engineering	Must fully support this stage	Potential support of segment planning	None
Early Construction	Must largely support this stage	Some segment construction/ROW acquisition support	Mostly construction firms; any equity investment at this stage would require a large discount on expected future earnings.
Late Construction	Must partially support this stage	Most funding will come at this time as stations near completion.	Construction firms, and pure vendors; investment will still require a discount on expected future earnings.
Operational Opening	Little to none	None	Vendors, and pure operators; investment may still require a discount on expected future earnings
Ongoing Operations	None	None	Operators and investors will be particularly interested once ridership is proven.

Finance Plan - Project Timing

Private participation could occur early with a construction firm/investor consortium that shared in future revenues; however, this is unlikely.

- State funds would support all pre-construction engineering and planning work.
- Federal funds would play a role once ROW acquisition and system construction begins.
- Local funds will provide support at different times, in parallel with system development across different communities.
- Private funds would support construction and/or systems and equipment expenditures throughout the construction period.

Early Private Participation

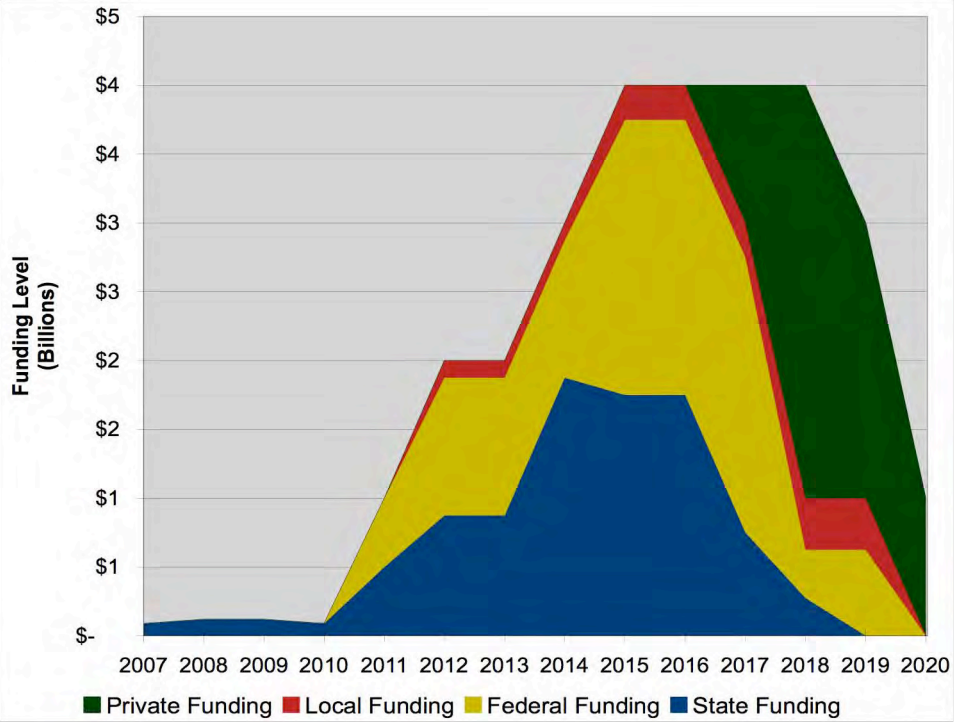


Finance Plan - Project Timing

Private participation could occur during the latter construction phases once completion risk is reduced and funding sources are secure. However, the valuation will still be discounted for ridership risk.

- State funds would support all pre-construction engineering and planning work, as well as early construction.
- Federal funds would play an important role once ROW acquisition and system construction begins.
- Local funds will provide support at different times, in parallel with system development across different communities.
- Private funds would support construction and/or systems and equipment expenditures once the above conditions were met.

Mid-Term Private Participation

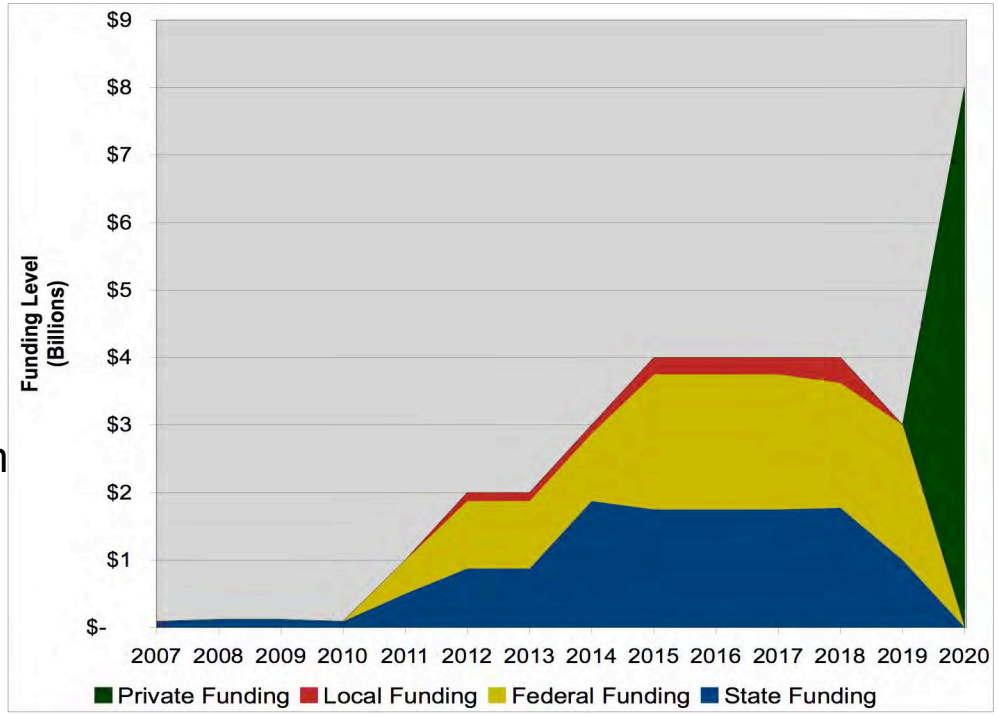


Finance Plan - Project Timing

If completion risk is considered too high, private participation may not be available until operational opening, requiring more up-front state and federal dollars to be repaid with later private investment.

- State funds would support all pre-construction engineering and planning, and early construction.
- Federal funds would play an key role once ROW acquisition and system construction begins.
- Additional state/federal funds would be needed during construction in place of private dollars.
- Local funds will provide support at different times, in parallel with system development across.
- Private funds would primarily be provided at operational opening and subject to ridership risk.

Operational Opening Private Participation

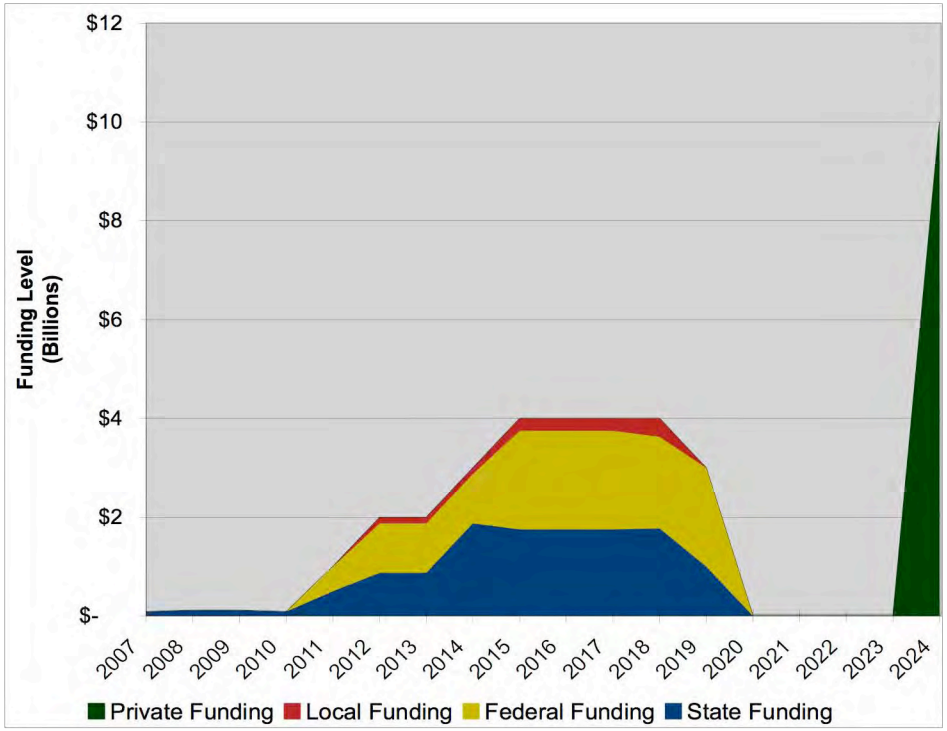


Finance Plan - Project Timing

If ridership risk is seen as too high, private participation may not be available until after operational opening, requiring more up-front state and federal dollars to be repaid with a later, larger private investment.

- State funds would support all pre-construction engineering and planning work, and early construction.
- Federal funds would play an important role once ROW acquisition and system construction begins.
- Additional state/federal funds would be needed during construction in place of private dollars.
- Local funds will provide support at different times, in parallel with system development.
- Private funds would take on long-term ridership risk.

Later Operational Private Participation



Finance Plan - Project Timing

Since the Authority likely needs private support during the construction, efforts need to be made to clearly define risks early and to identify partners who are willing to take some completion and ridership risk.

- An early commitment on the part of the private sector will reduce the total dollar value of private participation; however, early private participation may accelerate and improve planning and implementation and further validate Project feasibility.
- Private partners who have an interest in the completion of the Project, particularly vendors and operators, have the most to gain and are therefore more likely to be interested in investing early.
- To attract these partners the Authority should:
  - Provide early opportunities for potential partners to indicate their ideal P3 structure
  - Focus on ensuring that federal and state law is conducive to the types of P3 structures proposed
  - Focus on securing federal and state funding for key phases
  - Work to clearly define all risks and convey that information to potential funding sources and the public.


Appendices

Appendix A - Glossary

- B - Billion
- BPS - Basis points
- FHWA - Federal Highway Administration
- FRA - Federal Rail Administration
- FTA - Federal Transit Administration
- GO - General Obligation
- HST - High-Speed Train
- JPA - Joint Powers Authority
- LRB - Lease Revenue Bonds
- MPO - Metropolitan Planning Organization
- MM - Million
- PAB - Private Activity Bond
- P3 - Public Private Partnership
- ROW - Right-Of-Way
- RRIF - Railroad Rehabilitation and Improvement Financing
- TIFIA - Transportation Infrastructure Finance and Innovation Act
- USDOT - United Stated Department of Transportation

C.3. Funding Sources

C.3.1. State Funding

State funding as currently contemplated, would be provided through the passage of a bond measure by the voters of California. The legislation that introduced this bond measure passed in 2002 and indicated 2004 as the date for the vote on the bond measure[6]. Since that time, this legislation has been amended twice, resulting in the currently scheduled date of November 2008 for a vote on the bond measure[7]. An additional amendment, has been introduced to the Bond Act that specifies the general criteria that the Authority would use in selecting segments for construction, and limits the amount of bond proceeds that could be used for planning purposes[8]. The Administration's "Strategic Growth Plan", contained in its 2008-09 budget summary, includes the High-Speed Rail bonds in its proposed general obligation bonds[9].

If passed, the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century would issue $9.95 billion of general obligation bonds, $9 billion of which would be used to develop the high-speed train system proposed by CHRSA. General obligation bonds are known as General Fund Supported bonds and must be approved by the voters. Their repayment is guaranteed by state tax revenues. Most recently sold general obligation bonds are paid off over a 30-year period.

The $9 billion raised by the act would go to funding the building of a segment of the system between the San Francisco Transbay terminal and the Los Angeles Union Station. All remaining funds would go to fund additional segments of the system including Oakland-San Jose, Sacramento-Merced and Inland Empire-San Diego. The separate $950,000,000 raised by the initiative would be allocated for capital improvements to commuter and intercity rail lines, which will connect to the high-speed train system once it is built.

Anticipated funding in the Bond Act represents state support currently under discussion; however, RFEI responses may contemplate additional State support if it is believed to be necessary for the development and/or operation of the high-speed train system. To the extent that additional State support is assumed, please indicate any assumptions made about the form and value of this support.

[6] See Exhibit C.3.1.1.
[7] See Exhibits C.3.1.2 and C.3.1.3.
[8] See Exhibit C.3.1.4.
[9] "The California Strategic Growth Plan", Governor's Budget Summary 2008-09, p. 54-55.

C.3.1.1. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (SB 1856)

Senate Bill No. 1856

CHAPTER 697

An act to add Chapter 20 (commencing with Section 2704) to Division 3 of the Streets and Highways Code, relating to financing a high-speed passenger train system by providing the funds necessary therefor through the issuance and sale of bonds of the State of California and by providing for the handling and disposition of those funds.

[Approved by Governor September 19, 2002. Filed with Secretary of State September 19, 2002.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1856, Costa. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

Existing law creates the High-Speed Rail Authority with the responsibility of directing the development and implementation of intercity high-speed rail service.

This bill would enact the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, which, subject to voter approval, would provide for the issuance of $9.95 billion of general obligation bonds, $9 billion of which would be used in conjunction with available federal funds for the purpose of funding the planning and construction of a high-speed train system in this state pursuant to the business plan of the authority. Nine hundred fifty million dollars of the bond proceeds would be available for capital projects on other passenger rail lines to provide connectivity to the high-speed train system and for capacity enhancements and safety improvements to those lines. Bonds for the high-speed train system would not be issued earlier than January 1, 2006.

The bill would provide for the submission of the bond act to the voters at the general election on November 2, 2004.

The people of the State of California do enact as follows:

SECTION 1. (a) In light of the events of September 11, 2001, it is very clear that a high-speed passenger train network as described in the High-Speed Rail Authority's Business Plan is essential for the transportation needs of the growing population and economic activity of this state.

(b) The initial high-speed train network linking San Francisco and the Bay Area to Los Angeles will serve as the backbone of what will become

an extensive 700-mile system that will link all of the state's major population centers, including Sacramento, the Bay Area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego, and address the needs of the state.

(c) The initial network from San Francisco and the Bay Area Bay Area to Southern California could be in limited operation by 2008.

(d) The high-speed passenger train bond funds are intended to encourage the federal government and the private sector to make a significant contribution toward the construction of the high-speed train network.

(e) The initial segments shall be built in a manner that yields maximum benefit consistent with available revenues.

(f) After the initial investment from the state, operating revenues from the initial segments and funds from the federal government and the private sector will be used to pay for expansion of the system. It is the intent of the Legislature that the entire high- speed train system shall be constructed as quickly as possible in order to maximize ridership and the mobility of Californians.

(g) At a minimum, the entire 700-mile system described in the High-Speed Rail Authority's Business Plan should be constructed and in revenue service by 2020.

SEC. 2. Chapter 20 (commencing with Section 2704) is added to Division 3 of the Streets and Highways Code, to read:

CHAPTER 20. SAFE, RELIABLE HIGH-SPEED PASSENGER TRAIN BOND ACT FOR THE 21ST CENTURY

Article 1. General Provisions

2704. This chapter shall be known and may be cited as the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

2704.01. As used in this chapter, the following terms have the following meanings:

(a) ''Committee'' means the High-Speed Passenger Train Finance Committee created pursuant to Section 2704.12.

(b) ''Authority'' means the High-Speed Rail Authority created pursuant to Section 185020 of the Public Utilities Code.

(c) ''Fund'' means the High-Speed Passenger Train Bond Fund created pursuant to Section 2704.05.

(d) ''High-speed train'' means a passenger train capable of sustained revenue operating speeds of at least 200 miles per hour where conditions permit those speeds.

(e) ‘‘High-speed train system’’ means a system with high-speed trains and includes, but is not limited to, the following components: right-of-way, track, power system, rolling stock, stations, and associated facilities.

Article 2. High-Speed Passenger Train Financing Program

2704.04. (a) It is the intent of the Legislature by enacting this chapter and of the people of California by approving the bond measure pursuant to this chapter to initiate the construction of a high-speed train network consistent with the authority’s Final Business Plan of June 2000.

(b) (1) Nine billion dollars ($9,000,000,000) of the proceeds of bonds authorized pursuant to this chapter, as well as federal funds and other revenues made available to the authority, to the extent consistent with federal and other fund source conditions, shall be used for planning and eligible capital costs, as defined in subdivision (c), for the segment of the high-speed train system between San Francisco Transbay Terminal and Los Angeles Union Station. Once construction of the San Francisco-Los Angeles segment is fully funded, all remaining funds described in this subdivision shall be used for planning and eligible capital costs, as defined in subdivision (c), for the following additional high-speed train segments without preference to order:

(A) Oakland-San Jose.

(B) Sacramento-Merced.

(C) Los Angeles-Inland Empire.

(D) Inland Empire-San Diego.

(E) Los Angeles-Irvine.

(2) Revenues generated by operations above and beyond operating and maintenance costs shall be used to fund construction of the high-speed train system.

(c) Capital costs eligible to be paid from proceeds of bonds authorized for high-speed train purposes pursuant to this chapter include all activities necessary for acquisition of right-of-way, construction of tracks, structures, power systems, and stations, purchase of rolling stock and related equipment, and other related capital facilities and equipment.

(d) Proceeds of bonds authorized pursuant to this chapter shall not be used for any operating or maintenance costs of trains or facilities.

(e) The State Auditor shall perform periodic audits of the authority’s use of proceeds of bonds authorized pursuant to this chapter for consistency with the requirements of this chapter.

2704.05. The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the High-Speed Passenger Train Bond Fund, which is hereby created.

2704.06. Nine billion dollars ($9,000,000,000) of the money in the fund, upon appropriation by the Legislature, shall be available, without regard to fiscal years, for planning and construction of a high-speed train system in this state, consistent with the authority's Final Business Plan of June 2000, as subsequently modified pursuant to environmental studies conducted by the authority.

2704.07. The authority shall pursue and obtain other private and public funds, including, but not limited to, federal funds, funds from revenue bonds, and local funds, to augment the proceeds of this chapter.

2704.08. Proceeds of bonds authorized for high-speed train purposes pursuant to this chapter shall not be used for more than one-half of the total cost of construction of track and station costs of each segment of the high-speed train system.

2704.09. The high-speed train system to be constructed pursuant to this chapter shall have the following characteristics:

(a) Electric trains that are capable of sustained maximum revenue operating speeds of no less than 200 miles per hour.

(b) Maximum express service travel times for each corridor that shall not exceed the following:

(1) San Francisco-Los Angeles Union Station: two hours, 42 minutes.

(2) Oakland-Los Angeles Union Station: two hours, 42 minutes.

(3) San Francisco-San Jose: 31 minutes.

(4) San Jose-Los Angeles: two hours, 14 minutes.

(5) San Diego-Los Angeles: one hour.

(6) Inland Empire-Los Angeles: 29 minutes.

(7) Sacramento-Los Angeles: two hours, 22 minutes.

(8) Sacramento-San Jose: one hour, 12 minutes.

(c) Achievable operating headway (time between successive trains) shall be five minutes or less.

(d) The total number of stations to be served by high-speed trains for all of the segments described in subdivision (b) of Section 2704.04 shall not exceed 24.

(e) Trains shall have the capability to transition intermediate stations, or to bypass those stations, at mainline operating speed.

(f) For each corridor described in subdivision (b), passengers shall have the capability of traveling from any station on that corridor to any other station on that corridor without being required to change trains.

(g) In order to reduce impacts on communities and the environment, the alignment for the high-speed train system shall follow existing transportation or utility corridors to the extent possible.

(h) Stations shall be located in areas with good access to local mass transit or other modes of transportation.

(i) The high-speed train system shall be planned and constructed in a manner that minimizes urban sprawl and impacts on the natural environment.

(j) Preserving wildlife corridors and mitigating impacts to wildlife movement where feasible in order to limit the extent to which the system may present an additional barrier to wildlife's natural movement.

2704.095. (a) (1) Of the proceeds of bonds authorized pursuant to this chapter, nine hundred fifty million dollars ($950,000,000) shall be allocated to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail systems to provide connectivity to the high-speed train system as that system is described in subdivision (b) of Section 2704.04 and to provide capacity enhancements and safety improvements. Funds under this section shall be available upon appropriation by the Legislature in the Annual Budget act for the eligible purposes described in subdivision (d).

(2) Twenty percent (one hundred ninety million dollars ($190,000,000)) of the amount authorized by this section shall be allocated for intercity rail to the Department of Transportation, for state-supported intercity rail lines that provide regularly scheduled service and use public funds to operate and maintain rail facilities, rights-of-way, and equipment. A minimum of 25 percent of the amount available under this paragraph (forty-seven million five hundred thousand dollars ($47,500,000)) shall be allocated to each of the state's three intercity rail corridors.

The California Transportation Commission shall allocate the available funds to eligible recipients consistent with this section and shall develop guidelines to implement the requirements of this section. The guidelines shall include provisions for the administration of funds, including, but not limited to, the authority of the intercity corridor operators to loan these funds by mutual agreement between intercity rail corridors.

(3) Eighty percent (seven hundred sixty million dollars ($760,000,000)) of the amount authorized by this section shall be allocated to eligible recipients, except intercity rail, as described in subdivision (c) based upon a percentage amount calculated to incorporate all of the following:

(A) One-third of the eligible recipient's percentage share of statewide track miles.

(B) One-third of the eligible recipient's percentage share of statewide annual vehicle miles.

(C) One-third of the eligible recipient's percentage share of statewide annual passenger trips.

The California Transportation Commission shall allocate the available funds to eligible recipients consistent with this section and shall develop guidelines to implement the requirements of this section.

(b) For the purposes of this section, the following terms have the following meanings:

(1) ''Track miles'' means the miles of track used by a public agency or joint powers authority for regular passenger rail service.

(2) ''Vehicle miles'' means the total miles traveled, commencing with pullout from the maintenance depot, by all locomotives and cars operated in a train consist for passenger rail service by a public agency or joint powers authority.

(3) ''Passenger trips'' means the annual unlinked passenger boardings reported by a public agency or joint powers authority for regular passenger rail service.

(4) ''Statewide'' when used to modify the terms in paragraphs (A), (B), and (C) of paragraph (3) of subdivision (a) means the combined total of those amounts for all eligible recipients.

(c) Eligible recipients for funding under paragraph (3) of subdivision (a) shall be public agencies and joint powers authorities that operate regularly scheduled passenger rail service in the following categories:

(1) Commuter rail.

(2) Light rail.

(3) Heavy rail.

(4) Cable car.

(d) Funds allocated pursuant to this section shall be used for connectivity with the high-speed train system or for the rehabilitation or modernization of, or safety improvements to, tracks utilized for public passenger rail service, signals, structures, facilities, and rolling stock.

(e) Eligible recipients may use the funds for any eligible rail element set forth in subdivision (d).

(f) In order to be eligible for funding under this section, an eligible recipient under paragraph (3) of subdivision (a) shall provide matching funds in an amount not less than the total amount allocated to the recipient under this section.

(g) An eligible recipient of funding under paragraph (3) of subdivision (a) shall certify that it has met its matching funds requirement, and all other requirements of this section, by resolution of its governing board, subject to verification by the California Transportation Commission.

(h) Funds made available to an eligible recipient under paragraph (3) of subdivision (a) shall supplement existing local, state, or federal revenues being used for maintenance or rehabilitation of the passenger rail system. Eligible recipients of funding under paragraph (3) of subdivision (a) shall maintain their existing commitment of local, state, or federal funds for these purposes in order to remain eligible for allocation and expenditure of the additional funding made available by this section.

(i) In order to receive any allocation under this section, an eligible recipient under paragraph (3) of subdivision (a) shall annually expend from existing local, state, or federal revenues being used for the maintenance or rehabilitation of the passenger rail system in an amount not less than the annual average of its expenditures from local revenues for those purposes during the 1998–99, 1999–2000, and 2000–01 fiscal years.

(j) Funds allocated pursuant to this section to the Southern California Regional Rail Authority for eligible projects within its service area shall be apportioned each fiscal year in accordance with memorandums of understanding to be executed between the Southern California Regional Rail Authority and its member agencies. The memorandum or memorandums of understanding shall take into account the passenger service needs of the Southern California Regional Rail Authority and of the member agencies, revenue attributable to member agencies, and separate contributions to the Southern California Regional Rail Authority from the member agencies.

Article 3. Fiscal Provisions

2704.10. Bonds in the total amount of nine billion nine hundred fifty million dollars ($9,950,000,000), exclusive of refunding bonds, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this chapter and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code. The bonds, when sold, shall be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the bonds as the principal and interest become due and payable.

2704.11. (a) Except as provided in subdivision (b), the bonds authorized by this chapter shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law, Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of

Title 2 of the Government Code, and all of the provisions of that law apply to the bonds and to this chapter and are hereby incorporated in this chapter as though set forth in full in this chapter.

(b) Notwithstanding any provision of the State General Obligation Bond Law, each issue of bonds authorized by the committee shall have a final maturity of not more than 30 years.

2704.12. (a) Solely for the purpose of authorizing the issuance and sale, pursuant to the State General Obligation Bond Law, of the bonds authorized by this chapter, the High-Speed Passenger Train Finance Committee is hereby created. For purposes of this chapter, the High-Speed Passenger Train Finance Committee is ''the committee'' as that term is used in the State General Obligation Bond Law. The committee consists of the Treasurer, the Director of Finance, the Controller, the Secretary of the Business, Transportation and Housing Agency, and the chairperson of the authority, or their designated representatives. The Treasurer shall serve as chairperson of the committee. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the authority is designated the ''board.''

2704.13. The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Sections 2704.06 and 2704.095 and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be issued and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized be issued and sold at any one time. However, bonds for the high-speed train system may not be issued and sold prior to January 1, 2006. The committee shall consider program funding needs, revenue projections, financial market conditions, and other necessary factors in determining the shortest feasible term for the bonds to be issued.

2704.14. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds each year. It is the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act which is necessary to collect that additional sum.

2704.15. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, for the purposes of this chapter, an amount equal to that sum annually necessary to pay the principal of, and interest on, bonds issued and sold pursuant to this chapter, as the principal and interest become due and payable.

2704.16. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for purposes of this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of this chapter, less any amount borrowed pursuant to Section 2701.17. The committee may adopt a resolution for such purposes prior to January 1, 2006. The board shall execute such documents as required by the Pooled Money Investment Board to obtain and repay the loan. Any amount loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

2704.17. For the purpose of carrying out this chapter, the Director of Finance may authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of unsold bonds which have been authorized by the committee to be sold for the purpose of carrying out this chapter, less any amount borrowed pursuant to Section 2704.16. Any amount withdrawn shall be deposited in the fund. Any money made available under this section shall be returned to the General Fund, plus the interest that the amounts would have earned in the Pooled Money Investment Account, from the sale of bonds for the purpose of carrying out this chapter.

2704.18. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

2704.19. The bonds may be refunded in accordance with Article 6 (commencing with Section 16780) of the State General Obligation Bond Law. Approval by the electors of the state for the issuance of bonds shall include approval of the issuance of any bonds issued to refund any bonds originally issued or any previously issued refunding bonds.

2704.20. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not ‘‘proceeds of taxes’’ as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

2704.21. Notwithstanding any provision of the State General Obligation Bond Law with regard to the proceeds from the sale of bonds authorized by this chapter that are subject to investment under Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2 of the Government Code, the Treasurer may maintain a separate account for investment earnings, order the payment of those earnings to comply with any rebate requirement applicable under federal law, and may otherwise direct the use and investment of those proceeds

so as to maintain the tax-exempt status of those bonds and to obtain any other advantage under federal law on behalf of the funds of this state.

SEC. 3. Section 2 of this act shall take effect upon the adoption by the voters of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, as set forth in Section 2 of this act.

SEC. 4. (a) Section 2 of this act shall be submitted to the voters at the November 2, 2004, general election in accordance with provisions of the Government Code and the Elections Code governing the submission of statewide measures to the voters.

(b) Notwithstanding any other provision of law, all ballots of the November 2, 2004, general election shall have printed thereon and in a square thereof, exclusively, the words ''Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century'' and in the same square under those words, the following in 8-point type: ''This act provides for the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century. For the purpose of reducing traffic on the state's highways and roadways, upgrading commuter transportation, improving people's ability to get safely from city to city, alleviating congestion at airports, reducing air pollution, and providing for California's growging population, shall the state build a high-speed train system and improve existing passenger rail lines serving the state's major population centers by creating a rail trust fund that will issue bonds totaling $9.95 billion, paid from existing state funds at an average cost of ____ dollars ($____) per year over the 30-year life of the bonds, with all expenditures subject to an independent audit?'' The blank space in the question to appear on the ballot pursuant to this subdivision shall be filled in by the Attorney General with the appropriate figure provided by the Legislative Analyst relative to the annual average cost of the bonds. Opposite the square, there shall be left spaces in which the voters may place a cross in the manner required by law to indicate whether they vote for or against the measure.

(c) Notwithstanding Sections 13247 and 13281 of the Elections Code, the language in subdivision (b) shall be the only language included in the ballot label for the condensed statement of the ballot title, and the Attorney General shall not supplement, subtract from, or revise that language, except that the Attorney General may include the financial impact summary prepared pursuant to Section 9087 of the Elections Code and Section 88003 of the Government Code. The ballot label is the condensed statement of the ballot title and the financial impact summary.

(d) Where the voting in the election is done by means of voting machines used pursuant to law in the manner that carries out the intent

of this section, the use of the voting machines and the expression of the voters' choice by means thereof are in compliance with this section.

O

C.3.1.2. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (SB 1169)

Senate Bill No. 1169

CHAPTER 71

An act to amend Sections 2704.13 and 2704.16 of the Streets and Highways Code, and to amend Sections 1, 3, and 4 of Chapter 697 of the Statutes of 2002, relating to transportation, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor June 24, 2004. Filed with Secretary of State June 24, 2004.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1169, Murray. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

Existing law, Chapter 697 of the Statutes of 2002, provides for submission of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century to the voters for approval at the November 2, 2004, general election. Subject to voter approval, the act would provide for the issuance of $9.95 billion of general obligation bonds, $9 billion of which would be available in conjunction with any available federal funds for planning and construction of a high-speed train system pursuant to the business plan of the High-Speed Rail Authority, and $950 million of which would be available for capital projects on other passenger rail lines to provide connectivity to the high-speed train system and for capacity enhancements and safety improvements to those lines. Existing law provides that bonds for the high-speed train system would not be issued earlier than January 1, 2006.

This bill would instead provide for submission of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century to the voters for approval at the November 7, 2006, general election. The bill would provide that bonds for the high-speed train system would not be issued earlier than January 1, 2008. The bill would make other related changes.

The bill would declare that it is to take effect immediately as an urgency statute.

The people of the State of California do enact as follows:

SECTION 1. Section 1 of Chapter 697 of the Statutes of 2002 is amended to read:

Section 1. (a) In light of the events of September 11, 2001, it is very clear that a high-speed passenger train network as described in the High-Speed Rail Authority's Business Plan is essential for the

transportation needs of the growing population and economic activity of this state.

(b) The initial high-speed train network linking San Francisco and the bay area to Los Angeles will serve as the backbone of what will become an extensive 700-mile system that will link all of the state's major population centers, including Sacramento, the bay area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego, and address the needs of the state.

(c) The high-speed passenger train bond funds are intended to encourage the federal government and the private sector to make a significant contribution toward the construction of the high-speed train network.

(d) The initial segments shall be built in a manner that yields maximum benefit consistent with available revenues.

(e) After the initial investment from the state, operating revenues from the initial segments and funds from the federal government and the private sector will be used to pay for expansion of the system. It is the intent of the Legislature that the entire high-speed train system shall be constructed as quickly as possible in order to maximize ridership and the mobility of Californians.

(f) At a minimum, the entire 700-mile system described in the High-Speed Rail Authority's Business Plan should be constructed and in revenue service by 2020.

SEC. 2. Section 2704.13 of the Streets and Highways Code, as added by Section 2 of Chapter 697 of the Statutes of 2002, is amended to read:

2704.13. The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Sections 2704.06 and 2704.095 and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be issued and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized be issued and sold at any one time. However, bonds for the high-speed train system may not be issued and sold prior to January 1, 2008. The committee shall consider program funding needs, revenue projections, financial market conditions, and other necessary factors in determining the shortest feasible term for the bonds to be issued.

SEC. 3. Section 2704.16 of the Streets and Highways Code, as added by Section 2 of Chapter 697, is amended to read:

2704.16. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for purposes of this chapter. The amount of the request shall not exceed the amount

of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of this chapter, less any amount borrowed pursuant to Section 2701.17. The committee may adopt a resolution for such purposes prior to January 1, 2008. The board shall execute such documents as required by the Pooled Money Investment Board to obtain and repay the loan. Any amount loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

SEC. 4. Section 3 of Chapter 697 of the Statutes of 2002 is amended to read:

Sec. 3. Section 2 of Chapter 697 of the Statutes of 2002, as amended by Sections 2 and 3 of the act amending this section in the 2003–04 Regular Session, shall take effect upon the adoption by the voters of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, as set forth in Section 2 of Chapter 697 of the Statutes of 2002, as amended by Sections 2 and 3 of the act amending this section in the 2003–04 Regular Session.

SEC. 5. Section 4 of Chapter 697 of the Statutes of 2002 is amended to read:

Sec. 4. (a) Section 2 of Chapter 697 of the Statutes of 2003, as amended by Sections 2 and 3 of the act amending this section in the 2003-04 Regular Session, shall be submitted to the voters at the November 7, 2006, general election in accordance with provisions of the Government Code and the Elections Code governing the submission of statewide measures to the voters.

(b) Notwithstanding any other provision of law, all ballots of the November 7, 2006, general election shall have printed thereon and in a square thereof, exclusively, the words ''Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century'' and in the same square under those words, the following in 8-point type: ''This act provides for the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century. For the purpose of reducing traffic on the state's highways and roadways, upgrading commuter transportation, improving people's ability to get safely from city to city, alleviating congestion at airports, reducing air pollution, and providing for California's growing population, shall the state build a high-speed train system and improve existing passenger rail lines serving the state's major population centers by creating a rail trust fund that will issue bonds totaling $9.95 billion, paid from existing state funds at an average cost of ____ dollars ($____) per year over the 30-year life of the bonds, with all expenditures subject to an independent audit?'' The blank space in the question to appear on the ballot pursuant to this subdivision shall be filled in by the Attorney General with the appropriate figure provided by the Legislative Analyst relative to the annual average cost of the bonds. Opposite the square,

there shall be left spaces in which the voters may place a cross in the manner required by law to indicate whether they vote for or against the measure.

(c) Notwithstanding Sections 13247 and 13281 of the Elections Code, the language in subdivision (b) shall be the only language included in the ballot label for the condensed statement of the ballot title, and the Attorney General shall not supplement, subtract from, or revise that language, except that the Attorney General may include the financial impact summary prepared pursuant to Section 9087 of the Elections Code and Section 88003 of the Government Code. The ballot label is the condensed statement of the ballot title and the financial impact summary.

(d) Where the voting in the election is done by means of voting machines used pursuant to law in the manner that carries out the intent of this section, the use of the voting machines and the expression of the voters' choice by means thereof are in compliance with this section.

SEC. 6. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to defer a general obligation bond measure to authorize the issuance and sale of bonds for the financing of a high-speed passenger train system from the November 2, 2004, general election ballot to the November 7, 2006, general election ballot, it is necessary that this act take effect immediately.

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C.3.1.3. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (AB 713)

Assembly Bill No. 713
CHAPTER 44
An act to amend Section 2704.13 and 2704.16 of the Streets and Highways Code, and to amend Sections 3 and 4 of Chapter 697 of the Statutes of 2002, relating to transportation, and declaring the urgency thereof, to take effect immediately.
[Approved by Governor June27, 2006. Filed with Secretary of State June27, 2006.]

Legislative Counsel's Digest

AB713, Torrico. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.
Existing law provides for submission of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century to the voters for approval at the November 7, 2006, general election. Subject to voter approval, the act would provide for the issuance of $9.95 billion of general obligation bonds, $9 billion of which would be available in conjunction with any available federal funds for planning and construction of a high-speed train system pursuant to the business plan of the High-Speed Rail Authority, and $950 million of which would be available for capital projects on other passenger rail lines to provide connectivity to the high-speed train system and for capacity enhancements and safety improvements to those lines. This bill would instead provide for submission of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century to the voters for approval at the November 4, 2008, general election. The bill would make other related changes. This bill would declare that it is to take effect immediately as an urgency statute.

The people of the State of California do enact as follows:
SECTION 1. Section 2704.13 of the Streets and Highways Code, as amended by Section 2 of Chapter 71 of the Statutes of 2004, is amended to read:
2704.13. The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Sections 2704.06 and 2704.095 and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be issued and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized be issued and sold at any one time. The committee shall consider program funding needs, revenue 96 projections, financial market conditions, and other necessary factors in determining the shortest feasible term for the bonds to be issued.

SEC. 2. Section 2704.16 of the Streets and Highways Code, as amended by Section 3 of Chapter 71 of the Statutes of 2004, is amended to read:
2704.16. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for purposes of this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of this chapter, less any amount borrowed pursuant to Section 2701.17. The board shall execute such documents as required by the Pooled Money Investment Board to obtain and repay the loan. Any amount loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.
SEC. 3. Section 3 of Chapter 697 of the Statutes of 2002, as amended by Section 4 of Chapter 71 of the Statutes of 2004, is amended to read:

Sec. 3. Section 2 of Chapter 697 of the Statutes of 2002, as amended by Sections 2 and 3 of

Chapter 71 of the Statutes of 2004, and as further amended by Sections 1 and 2 of the act amending this section in the 2005-06 Regular Session, shall take effect upon the adoption by the voters of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, as set forth in Section 2 of Chapter 697 of the Statutes of 2002, as amended by Sections 2 and 3 of Chapter 71 of the Statutes of 2004, and as further amended by Sections 1 and 2 of the act amending this section in the 2005-06 Regular Session.
SEC. 4. Section 4 of Chapter 697 of the Statutes of 2002, as amended by Section 5 of Chapter 71 of the Statutes of 2004, is amended to read:
Sec. 4. (a) Section 2 of Chapter 697 of the Statutes of 2003, as amended by Sections 2 and 3 of Chapter 71 of the Statutes of 2004, and as further amended by Sections 1 and 2 of the act amending this section in the 2005-06 Regular Session, shall be submitted to the voters at the November 4, 2008, general election in accordance with provisions of the Government Code and the Elections Code governing the submission of statewide measures to the voters.
(b) Notwithstanding any other provision of law, all ballots of the November 4, 2008, general election shall have printed thereon and in a square thereof, exclusively, the words "Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century" and in the same square under those words, the following in 8-point type: "This act provides for the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

For the purpose of reducing traffic on the state's highways and roadways, upgrading commuter transportation, improving people's ability to get safely from city to city, alleviating congestion at airports, reducing air pollution, and providing for California's growing population, shall the state build a high-speed train system and improve existing passenger rail lines serving the state's major population centers by creating a rail trust fund that will issue bonds totaling $9.95 billion, paid from existing state funds at an average cost of ____ dollars ($____) per year over the 30-year life of the bonds, with all expenditures subject to an independent audit?" The blank space in the question to appear on the ballot pursuant to this subdivision shall be filled in by the Attorney General with the appropriate figure provided by the Legislative Analyst relative to the annual average cost of the bonds. Opposite the square, there shall be left spaces in which the voters may place a cross in the manner required by law to indicate whether they vote for or against the measure.

(c) Notwithstanding Sections 13247 and 13281 of the Elections Code, the language in subdivision (b) shall be the only language included in the ballot label for the condensed statement of the ballot title, and the Attorney General shall not supplement, subtract from, or revise that language, except that the Attorney General may include the financial impact summary prepared pursuant to Section 9087 of the Elections Code and Section 88003 of the Government Code. The ballot label is the condensed statement of the ballot title and the financial impact summary.
(d) Where the voting in the election is done by means of voting machines used pursuant to law in the manner that carries out the intent of this section, the use of the voting machines and the expression of the voters' choice by means thereof are in compliance with this section. SEC. 5. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:
In order to remove the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century from the November 7, 2006, general election and to instead submit it to the voters at the November 4, 2008, general election, it is necessary that this act take effect immediately.

C.3.1.4. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (AB 3034)

ASSEMBLY BILL No. 3034

Introduced by Assembly Members Galgiani and Ma
(Principal coauthor: Assembly Member Davis)
(Coauthor: Senator Steinberg)

February 22, 2008

An act to amend Sections 2704.04, 2704.06, 2704.08, and 2704.095 of the Streets and Highways Code, and to amend Sections 1, 3, and 4 of Chapter 697 of the Statutes of 2002, relating to transportation, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 3034, as introduced, Galgiani. Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

Existing law, Chapter 697 of the Statutes of 2002, as amended by Chapter 71 of the Statutes of 2004 and Chapter 44 of the Statutes of 2006, provides for submission of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century to the voters for approval at the November 4, 2008, general election. Subject to voter approval, the act would provide for the issuance of $9.95 billion of general obligation bonds, $9 billion of which would be available in conjunction with any available federal funds for planning and construction of a high-speed train system pursuant to the business plan of the High-Speed Rail Authority, and $950 million of which would be available for capital projects on other passenger rail lines to provide connectivity to the high-speed train system and for capacity enhancements and safety improvements to those lines.

This bill would make various revisions to the bond act to be submitted to the voters. The bill would refer to construction of a high-speed train

system consistent with the authority's certified environmental impact report of November 2005, rather than with the final business plan of June 2000. The bill would revise the descriptions of route segments of the proposed high-speed train system. The bill would require excess revenues from operation of the high-speed train system beyond the amount needed for high-speed train purposes, as defined by the authority, to be deposited in the General Fund. The bill would require that not more than 10% of bond proceeds be used for environmental studies, planning, and engineering activities, and would require the authority to have a detailed funding plan for each segment of the system that identifies the full cost of construction and the sources of revenues for that segment, prior to awarding a construction contract for the segment. The bill would require the authority to give priority in selecting each specific segment for construction to those segments that require the least amount of bond funds as a percentage of total cost of construction, among other considerations.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: ⅔. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 1 of Chapter 697 of the Statutes of 2002, as amended by Section 1 of Chapter 71 of the Statutes of 2004, is amended to read:

Section 1. (a) ~~In light of the events of September 11, 2001, it is very clear that a high-speed passenger train network as described in the High-Speed Rail Authority's Business Plan is essential for the transportation needs of the growing population and economic activity of this state~~ *The continuing growth in California's population and the resulting increase in traffic congestion, air pollution, greenhouse gas emissions, and loss of land make it imperative that the state proceed quickly to construct a state-of-the-art high-speed passenger train network to serve major metropolitan areas.*

(b) ~~The initial high-speed train network linking San Francisco and the bay area to Los Angeles will serve as the backbone of what will become an extensive 700-mile system that will link all of the state's major population centers, including Sacramento, the bay~~

~~area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego, and address the needs of the state~~ *The High-Speed Rail Authority, after extensive studies and analysis, proposes the construction of a new high-speed train network that serves major population centers in the state and that links regional and local transit systems to form an integrated transportation network throughout the state. The network will link all of the state's major population centers, including Sacramento, the Bay Area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego.*

(c) The high-speed train network proposed by the authority will cost about one-third of what it would cost to provide the same level of mobility and service with highway and airport improvements and will contribute significantly toward a reduction in air pollution and global warming.

(d) The high-speed train network, once it is completed and becomes operational, will contribute significantly toward the goal of reducing greenhouse gas emissions and other air pollutants and will help reduce California's dependence on foreign energy sources.

~~(c)~~

(e) The high-speed passenger train bond funds are intended to encourage the federal government and the private sector to make a significant contribution toward the construction of the high-speed train network.

~~(d) The initial segments shall be built in a manner that yields maximum benefit consistent with available revenues.~~

~~(e) After the initial investment from the state, operating revenues from the initial segments and funds from the federal government and the private sector will be used to pay for expansion of the system. It is the intent of the Legislature that the entire high-speed train system shall be constructed as quickly as possible in order to maximize ridership and the mobility of Californians.~~

(f) ~~At a minimum, the entire 700-mile system described in the High-Speed Rail Authority's Business Plan should be constructed and in revenue service by 2020~~ *It is the intent of the Legislature that the entire high-speed train system shall be constructed as quickly as possible in order to maximize ridership and the mobility of Californians, and that it be completed no later than 2020, and*

that all phases shall be built in a manner that yields maximum benefit consistent with available revenues.

SEC. 2. Section 2704.04 of the Streets and Highways Code, as added by Section 2 of Chapter 697 of the Statutes of 2002, is amended to read:

2704.04. (a) It is the intent of the Legislature by enacting this chapter and of the people of California by approving the bond measure pursuant to this chapter to initiate the construction of a high-speed train network consistent with the authority's ~~Final Business Plan of June 2000~~ *certified environmental impact report of November 2005*.

(b) (1) Nine billion dollars ($9,000,000,000) of the proceeds of bonds authorized pursuant to this chapter, as well as federal funds and other revenues made available to the authority, to the extent consistent with federal and other fund source conditions, shall be used for planning and eligible capital costs, as defined in subdivision (c), ~~for the segment of the high-speed train system between San Francisco Transbay Terminal and Los Angeles Union Station. Once construction of the San Francisco-Los Angeles segment is fully funded, all remaining funds described in this subdivision shall be used for planning and eligible capital costs, as defined in subdivision (c),~~ for the ~~following additional high-speed train segments without preference to order~~ *purpose of including, but not limited to, the following high-speed train system segments*:

(A) ~~Oakland-San Jose~~ *Sacramento to Stockton to Fresno*.

(B) ~~Sacramento-Merced~~ *San Francisco Transbay Terminal to San Jose to Fresno*.

(C) ~~Los Angeles-Inland Empire~~ *Oakland to San Jose*.

(D) ~~Inland Empire-San Diego~~ *Fresno to Bakersfield to Palmdale to Los Angeles Union Station to Anaheim to Irvine*.

(E) ~~Los Angeles-Irvine~~ *Los Angeles Union Station to Riverside to San Diego*.

(F) Los Angeles Union Station to Irvine.

(2) Revenues generated by operations above and beyond operating and maintenance costs shall be used to ~~fund~~ *complete* construction of the high-speed train system, *as defined by the authority If excess revenues exceed the amount needed for the high-speed train system, those revenues shall be deposited in the General Fund*.

(c) Capital costs eligible to be paid from proceeds of bonds authorized for high-speed train purposes pursuant to this chapter include all activities necessary for acquisition of right-of-way, construction of tracks, structures, power systems, and stations, purchase of rolling stock and related equipment, and other related capital facilities and equipment.

(d) Proceeds of bonds authorized pursuant to this chapter shall not be used for any operating or maintenance costs of trains or facilities.

(e) The State Auditor shall perform periodic audits of the authority's use of proceeds of bonds authorized pursuant to this chapter for consistency with the requirements of this chapter.

SEC. 3. Section 2704.06 of the Streets and Highways Code, as added by Section 2 of Chapter 697 of the Statutes of 2002, is amended to read:

2704.06. Nine billion dollars ($9,000,000,000) of the money in the fund, upon appropriation by the Legislature, shall be available, without regard to fiscal years, for planning and construction of a high-speed train system in this state, consistent with the authority's ~~Final Business Plan of June 2000~~ *certified environmental impact report of November 2005*, as subsequently modified pursuant to environmental studies conducted by the authority.

SEC. 4. Section 2704.08 of the Streets and Highways Code, as added by Section 2 of Chapter 697 of the Statutes of 2002, is amended to read:

2704.08. *(a)* Proceeds of bonds authorized for high-speed train purposes pursuant to this chapter shall not be used for more than one-half of the total cost of construction of track and station costs of each segment of the high-speed train system.

(b) Not more than 10 percent of the proceeds of bonds authorized pursuant to this chapter shall be used for environmental studies, planning, and engineering activities.

(c) In selecting each specific segment for construction and prior to awarding a construction contract, the authority shall have a detailed funding plan for that segment that identifies the full cost of constructing the segment and the sources of all revenues needed to complete construction of the segment.

(d) In selecting each specific segment for construction, the authority shall give priority to those segments that require the

least amount of bond funds as a percentage of total cost of construction, shall consider the utility of that segment for other passenger rail services, and shall ensure that any other passenger service provided on that segment will not result in any operating or maintenance cost to the authority.

SEC. 5. Section 2704.095 of the Streets and Highways Code, as added by Section 2 of Chapter 697 of the Statutes of 2002, is amended to read:

2704.095. (a) (1) Of the proceeds of bonds authorized pursuant to this chapter, nine hundred fifty million dollars ($950,000,000) shall be allocated to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail systems ~~to~~ *that* provide *direct* connectivity to the high-speed train system *and its facilities, or that are part of the construction of the high-speed train system* as that system is described in subdivision (b) of Section 2704.04 ~~and to~~*, or that* provide capacity enhancements and safety improvements. Funds under this section shall be available upon appropriation by the Legislature in the Annual Budget act for the eligible purposes described in subdivision (d).

(2) Twenty percent (one hundred ninety million dollars ($190,000,000)) of the amount authorized by this section shall be allocated for intercity rail to the Department of Transportation, for state-supported intercity rail lines that provide regularly scheduled service and use public funds to operate and maintain rail facilities, rights-of-way, and equipment. A minimum of 25 percent of the amount available under this paragraph (forty-seven million five hundred thousand dollars ($47,500,000)) shall be allocated to each of the state's three intercity rail corridors.

The California Transportation Commission shall allocate the available funds to eligible recipients consistent with this section and shall develop guidelines*, in consultation with the authority,* to implement the requirements of this section. The guidelines shall include provisions for the administration of funds, including, but not limited to, the authority of the intercity corridor operators to loan these funds by mutual agreement between intercity rail corridors.

(3) Eighty percent (seven hundred sixty million dollars ($760,000,000)) of the amount authorized by this section shall be allocated to eligible recipients, except intercity rail, as described

in subdivision (c) based upon a percentage amount calculated to incorporate all of the following:

(A) One-third of the eligible recipient's percentage share of statewide track miles.

(B) One-third of the eligible recipient's percentage share of statewide annual vehicle miles.

(C) One-third of the eligible recipient's percentage share of statewide annual passenger trips.

The California Transportation Commission shall allocate the available funds to eligible recipients consistent with this section and shall develop guidelines to implement the requirements of this section.

(b) For the purposes of this section, the following terms have the following meanings:

(1) "Track miles" means the miles of track used by a public agency or joint powers authority for regular passenger rail service.

(2) "Vehicle miles" means the total miles traveled, commencing with pullout from the maintenance depot, by all locomotives and cars operated in a train consist for passenger rail service by a public agency or joint powers authority.

(3) "Passenger trips" means the annual unlinked passenger boardings reported by a public agency or joint powers authority for regular passenger rail service.

(4) "Statewide" when used to modify the terms in paragraphs (A), (B), and (C) of paragraph (3) of subdivision (a) means the combined total of those amounts for all eligible recipients.

(c) Eligible recipients for funding under paragraph (3) of subdivision (a) shall be public agencies and joint powers authorities that operate regularly scheduled passenger rail service in the following categories:

(1) Commuter rail.

(2) Light rail.

(3) Heavy rail.

(4) Cable car.

(d) Funds allocated pursuant to this section shall be used for connectivity with the high-speed train system or for the rehabilitation or modernization of, or safety improvements to, tracks utilized for public passenger rail service, signals, structures, facilities, and rolling stock.

(e) Eligible recipients may use the funds for any eligible rail element set forth in subdivision (d).

(f) In order to be eligible for funding under this section, an eligible recipient under paragraph (3) of subdivision (a) shall provide matching funds in an amount not less than the total amount allocated to the recipient under this section.

(g) An eligible recipient of funding under paragraph (3) of subdivision (a) shall certify that it has met its matching funds requirement, and all other requirements of this section, by resolution of its governing board, subject to verification by the California Transportation Commission.

(h) Funds made available to an eligible recipient under paragraph (3) of subdivision (a) shall supplement existing local, state, or federal revenues being used for maintenance or rehabilitation of the passenger rail system. Eligible recipients of funding under paragraph (3) of subdivision (a) shall maintain their existing commitment of local, state, or federal funds for these purposes in order to remain eligible for allocation and expenditure of the additional funding made available by this section.

(i) In order to receive any allocation under this section, an eligible recipient under paragraph (3) of subdivision (a) shall annually expend from existing local, state, or federal revenues being used for the maintenance or rehabilitation of the passenger rail system in an amount not less than the annual average of its expenditures from local revenues for those purposes during the 1998–99, 1999–2000, and 2000–01 fiscal years.

(j) Funds allocated pursuant to this section to the Southern California Regional Rail Authority for eligible projects within its service area shall be apportioned each fiscal year in accordance with memorandums of understanding to be executed between the Southern California Regional Rail Authority and its member agencies. The memorandum or memorandums of understanding shall take into account the passenger service needs of the Southern California Regional Rail Authority and of the member agencies, revenue attributable to member agencies, and separate contributions to the Southern California Regional Rail Authority from the member agencies.

SEC. 6. Section 3 of Chapter 697 of the Statutes of 2002, as amended by Section 3 of Chapter 44 of the Statutes of 2006, is amended to read:

Sec. 3. Section 2 of Chapter 697 of the Statutes of 2002, as amended by Sections 2 and 3 of Chapter 71 of the Statutes of 2004, ~~and~~ as further amended by Sections 1 and 2 of ~~the act amending this section in the 2005-06 Regular Session~~ *Chapter 44 of the Statutes of 2006, and as further amended by Sections 2 to 5, inclusive, of the act amending this section in the 2007–08 Regular Session*, shall take effect upon the adoption by the voters of the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, as set forth in Section 2 of Chapter 697 of the Statutes of 2002, as amended by Sections 2 and 3 of Chapter 71 of the Statutes of 2004, ~~and~~ as further amended by Sections 1 and 2 of ~~the act amending this section in the 2005-06 Regular Session~~ *Chapter 44 of the Statutes of 2006, and as further amended by Sections 2 to 5, inclusive, of the act amending this section in the 2007–08 Regular Session*.

SEC. 7. Section 4 of Chapter 697 of the Statutes of 2002, as amended by Section 4 of Chapter 44 of the Statutes of 2006, is amended to read:

Sec. 4. (a) Section 2 of Chapter 697 of the Statutes of ~~2003~~ *2002*, as amended by Sections 2 and 3 of Chapter 71 of the Statutes of 2004, ~~and~~ as further amended by Sections 1 and 2 of ~~the act amending this section in the 2005–06 Regular Session~~ *Chapter 44 of the Statutes of 2006, and as further amended by Sections 2 to 5, inclusive, of the act amending this section in the 2007–08 Regular Session*, shall be submitted to the voters at the November 4, 2008, general election in accordance with provisions of the Government Code and the Elections Code governing the submission of statewide measures to the voters.

(b) Notwithstanding any other provision of law, all ballots of the November 4, 2008, general election shall have printed thereon and in a square thereof, exclusively, the words “Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century” and in the same square under those words, the following in 8-point type: “This act provides for the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century. For the purpose of reducing traffic on the state’s highways and roadways, upgrading commuter transportation, improving people’s ability to get safely from city to city, alleviating congestion at airports, reducing air pollution, and providing for California’s growing population, shall the state build a high-speed train system and improve existing

passenger rail lines serving the state's major population centers by creating a rail trust fund that will issue bonds totaling $9.95 billion, paid from existing state funds at an average cost of ____ dollars ($____) per year over the 30-year life of the bonds, with all expenditures subject to an independent audit?" The blank space in the question to appear on the ballot pursuant to this subdivision shall be filled in by the Attorney General with the appropriate figure provided by the Legislative Analyst relative to the annual average cost of the bonds. Opposite the square, there shall be left spaces in which the voters may place a cross in the manner required by law to indicate whether they vote for or against the measure.

(c) Notwithstanding Sections 13247 and 13281 of the Elections Code, the language in subdivision (b) shall be the only language included in the ballot label for the condensed statement of the ballot title, and the Attorney General shall not supplement, subtract from, or revise that language, except that the Attorney General may include the financial impact summary prepared pursuant to Section 9087 of the Elections Code and Section 88003 of the Government Code. The ballot label is the condensed statement of the ballot title and the financial impact summary.

(d) Where the voting in the election is done by means of voting machines used pursuant to law in the manner that carries out the intent of this section, the use of the voting machines and the expression of the voters' choice by means thereof are in compliance with this section.

SEC. 8. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to modify the provisions of a general obligation bond measure on the November 4, 2008, general election ballot that would authorize the issuance and sale of bonds for the financing of a high-speed passenger train system and for other related purposes, it is necessary that this act take effect immediately.

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C.3.2. Federal Funding

The federal government has played an important role historically in the development of transportation systems of national importance. Given the importance of the development high-speed rail to the country as a whole, and to California specifically, federal funding is anticipated at levels similar to those experienced on other large transportation projects. Due to the lack of existing high-speed rail systems in the United States, no current mechanisms have been developed to deliver funding for high-speed rail development. However, several programs exist to guide general assumptions about the likely magnitude and timing of federal funding. In addition, proposed legislation for a variety of funding mechanisms for high-speed rail have also been put forward and provide further support for an important role of federal funding in the development of high-speed rail.

A brief summary of existing programs is provided in the attached memo.

Infrastructure Management Group, Inc.

MEMORANDUM

TO: **MEHDI MORSHED, CALIFORNIA HIGH-SPEED RAIL AUTHORITY (THE AUTHORITY)**

FROM: **IMG/ LEHMAN TEAM**

DATE: **SEPTEMBER 26, 2007**

REF: **FINANCIAL IMPLICATIONS OF FEDERAL ASSISTANCE PROGRAMS**

In its preliminary "Preliminary Funding Strategy and Finance Plan" presented to the California High Speed Rail Authority board on May 23, 2007, the team developed a financing strategy targeting $10 billion[1] in federal assistance for the phase one High Speed Rail (HSR) project. In this memo, the team summarizes its analysis of a range of funding tools; including grants, tax credit bonds, and various federal loan programs through which the government might provide this assistance. Some of these programs currently exist, while others are contemplated in proposed legislation. The figures provided in this memorandum are estimates and are provided for informational purposes. All assumptions are provided in the Appendix.

Existing Funding Assistance

Currently, a number of federal programs exist which could provide support to the Authority in developing high-speed rail (HSR) in California. Transportation Infrastructure Finance and Innovation ("TIFIA") loans, Railroad Rehabilitation & Improvement Financing ("RRIF") loans, and Private Activity Bonds ("PABs") are similar in that they offer more favorable financing terms to borrowers. The subsidy these programs provide through lower interest rates and more favorable repayment and coverage requirements would allow the HSR system to be built less expensively; however, the current overall levels of assistance contemplated by these programs are small.

An additional consideration affecting the use of these programs is the fact that the Authority's financial plan contemplates private investment to be repaid from the high-speed train's projected operating surpluses. Any loans provided by the federal government would need to be repaid from these operating surpluses, potentially impacting the Authority's ability to access private capital.

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[1] All Dollar Figures in this document are in 2006 dollars.

TIFIA

The Transportation Infrastructure Finance and Innovation Act of 1998 established a federal credit assistance program for eligible transportation projects of national or regional significance under which the U.S. Department of Transportation (DOT) may provide three forms of credit assistance – secured (direct) loans, loan guarantees, and standby lines of credit. For this analysis we've assumed the Authority would borrow under this program at an interest rate of 4.90 percent, or 210 basis points lower than the assumed 7.0% interest rate for revenue backed debt issued by the Authority. If the Authority were to borrow under the TIFIA program, its costs would be approximately 18% lower than if it were to borrow on its own. While this support is certainly beneficial, the Authority would not be able to receive the full $10 billion in needed federal support through this program as it exists today.

RRIF

The RRIF program was established by the Transportation Equity Act for the 21st Century (TEA-21) and amended by the Safe Accountable, Flexible and Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU). Under this program the Federal Railroad Administration is authorized to provide direct loans and loan guarantees up to $35.0 billion. Up to $7.0 billion is reserved for projects benefiting freight railroads. Although there are some differences between RRIF and TIFIA, a RRIF loan would offer a similar interest rate, resulting in a similar level of subsidy provided by the federal government. Accordingly, this program would also not provide the level of federal support needed by the HSR project.

PABs

Private Activity Bonds (PABs) are tax-exempt bonds issued by or on behalf of local or state governments for the purpose of providing special financing benefits for qualified projects. The financing is most often for projects of a private user, and the government generally does not pledge its credit. These bonds are used to attract private investment for projects that have some public benefit.

PABs are similar to TIFIA and RRIF in that the assistance provided by the government is subsidized borrowing costs, specifically, the ability of the private sector to issue tax-exempt debt. The key difference is that these benefits would accrue to a private party. These lower interest rates would lower the cost of capital for a potential private partner and encourage greater private participation, thus providing indirect value to the Authority. For this analysis we've assumed the interest rate on a PAB would be 7.0 percent, or 330 basis points lower than the expected 10.3% for revenue backed debt issued by a private sector entity. The use of PABs would lower the cost of private sector borrowing by approximately 23%.

Other Funding Assistance Options

Tax Credit Bonds

Several bills introduced in Congress, including HR-1300, have incorporated the concept of tax credit bonds for High Speed Rail. In essence, the issuer of a tax credit bond (in this case the Authority) would receive an up front influx of funds in exchange for the obligation to repay the face value of the bonds at maturity. The subsidy provided by the federal government is the annual tax credit that investors would receive in lieu of interest payments.

In the case of tax credit bonds, the level of federal support is considerably higher than that provided by the subsidized financing programs discussed above. This is because the Authority would not be merely reducing its interest payments, but eliminating them. The Authority’s only cost would be the repayment of principal upon the maturity of the bonds in 20 years. If the Authority were to borrow under a tax credit bond program, its costs would be about 59 percent lower than if it were to borrow on its own. While this support is considerable, it would require the Authority to issue approximately $22 billion in debt to result in the $10 billion of federal support identified in the financing plan. In addition, this use of this program would also require repayment from the HSR system’s operating revenues, which, as discussed earlier has the potential to impacting the Authority’s ability to access private capital.

Federal Grants

An additional form of federal assistance could come in the form of grants. Currently, no programs exist to provide this type of funding specifically for HSR in the United States; however, certain portions of HSR could be eligible for grant funding under the Federal Transit Administration’s “New Starts” program, which frequently provides funding for up to 50 percent of total project costs for many transit projects throughout the United States. Furthermore, S-294, a bill currently introduced in the Senate with considerable support, contemplates a similar grant program for intercity passenger rail service, specifically including high-speed rail.

Grants such as those contemplated in S-294 are the most direct way for the federal government to provide support for HSR and would not reduce the HSR system’s future operating surplus. However, due to budgetary and political constraints, it is likely that any significant levels of federal grant monies would be received over a period of several years, which might reduce the purchasing power of federal grants and, consequently, increase the nominal value of federal assistance needed.

Conclusions

While any federal assistance is beneficial to the Authority, currently existing forms of federal assistance are not sufficient to meet the Authority’s needs. The only type of federal support that could meet these needs on a stand-alone basis are direct grants, and the Authority should support any programs which would enable grants for HSR. Given that direct grants in the amount of $10 billion may be difficult to attain, a

combination of other federal support options, like TIFIA, RRIF, PABs and tax-credit bonds, alongside considerable grant funding, could also prove to be a viable option once a better understanding of private sector participation in the project is developed.